

AR56

1996 Annual Report

Petro-Canada

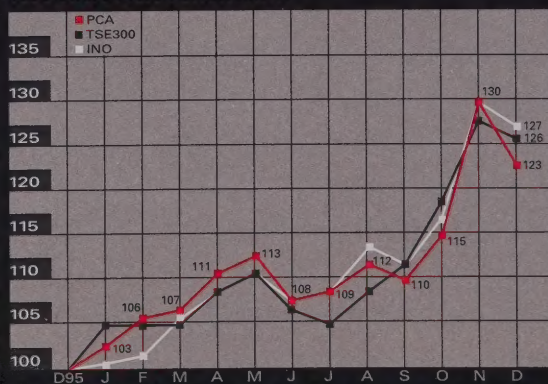
Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

Firmly
on
Course

Contents

	Businesses at a Glance
2	Highlights
3	To our Shareholders
5	Upstream Sector Review
15	Downstream Sector Review
21	Financial Review
26	Management's Responsibility for the Financial Statements
26	Audit Committee of the Board of Directors
26	Auditors' Report
27	Financial Statements
43	Supplemental Information
46	Five Year Financial and Operating Summary
48	Quarterly Financial and Stock Trading Information
49	Information for Shareholders and Investors
50	Board of Directors and Senior Officers
51	Glossary of Financial Terms and Ratios

1996 Share Price Performance



Changes in monthly closing values for Petro-Canada common shares (PCA) compared with Toronto Stock Exchange (TSE) 300 Index and the TSE Integrated Oils Sub-index (INO) from December 29, 1995.

During 1996, Petro-Canada common shares appreciated 23%.

Petro-Canada is a major Canadian oil and gas company and a leader in the Canadian petroleum industry. An integrated company, it has a balanced portfolio of businesses spanning both the upstream and downstream sectors of the industry.

In the upstream, Petro-Canada explores for, develops, produces and markets crude oil, natural gas and natural gas liquids. In the downstream, Petro-Canada transports, refines, distributes and markets petroleum products and related goods and services.

Petro-Canada shares are widely distributed. More than 80 per cent of the outstanding shares are held by institutional and individual investors. No investor may own more than 10 per cent of the public float. About 18 per cent of the Company's shares are held as an investment by the Government of Canada. The common shares and variable voting shares of Petro-Canada trade on Canadian stock exchanges under the symbol PCA and on the New York Stock Exchange under the symbol PCZ.

At the end of 1996, Petro-Canada had a market capitalization of over \$5 billion. The Company ranked 18th by weight among The Toronto Stock Exchange 300 companies, representing 1.18 per cent of the total market value of the index. In early 1997, Petro-Canada joined the Toronto 35 Index.

Windspear Business Narratives (R00001)
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

In 1996, a year of strong financial performance and strategic accomplishment, Petro-Canada created shareholder value through profitable growth and operational performance. 1997 also promises to be an exciting year. Petro-Canada is firmly on course to continue creating shareholder value and to achieve our vision of becoming the pre-eminent integrated oil and gas company in Canada. We are committed to attaining an industry leadership position through our key growth engines: natural gas production in Western Canada, Grand Banks oil, and refining and marketing.

	Business Description	1996 Objectives
Western Canada Oil & Gas	• Explores for, produces and markets crude oil, natural gas and natural gas liquids • Ranks 3rd in Canadian gas production – daily production of 712 million cubic feet is 5% of Canada's total • Ranks 5th in Canadian oil and field liquids production – daily production of 85.6 thousand barrels is 3.5% of Canada's total • Holds 12% interest in Syncrude oil sands plant	• Increase investment, with greater emphasis on reserve replacement in gas • Increase full-cycle exploration in core areas • Selectively invest in core oil assets to maintain production levels and maximize cash flow • Maximize the use of underutilized gas plant capacity • Focus on cost containment and gain new operating efficiencies
Grand Banks Oil	• Explores for, develops and will produce and market Grand Banks petroleum • Owns 22% of the oil which has been discovered on the Grand Banks • 20% participant in Hibernia; approximately 29% interest in Terra Nova	• Complete Hibernia construction • Complete negotiations on Terra Nova fiscal terms • Submit Terra Nova Development Plan Application • Investigate ways to accelerate Grand Banks exploration and development
International Oil	• Operates development and exploration project in Algeria • Owns working interest in two fields in the Norwegian sector of the North Sea • Pursues international opportunities selectively	• Begin production and continue exploration drilling in Algeria • Gain access to North Sea-related expertise and production
Natural Gas Liquids	• Extracts natural gas liquids, including ethane, propane, butane and condensate, from a gas trunk line at its straddle plant at Empress, Alberta • Markets natural gas liquids in Canada and the United States • Sells propane under the ICG brand	• Continually improve cost structure and plant reliability • Implement retail transformation to streamline ICG Propane operations
Refining	• Converts crude oil into refined products, including gasoline, diesel, jet fuel and asphalt • Provides 18% of Canada's refining capacity for domestic markets	• Maintain reliability and high capacity utilization • Capture full benefits of re-engineered business processes and systems
Marketing	• Markets refined products and services through a nationwide network of wholesale and retail outlets • Canada's second largest marketer, with a 17% share of the refined products market	• Further increase throughput per site • Re-engineer business processes and information systems
Lubricants	• Manufactures and markets lubricants • Produces exceptionally pure base oils • A global supplier of high-quality specialty lubricants	• Complete construction of plant expansion to nearly double capacity and expand position in markets for high-margin products • Have product from the expansion available for sale by year end

Key Statistics

				712	
50				85.6	80
25	562	540	546		80
00	79.8	73.3	79.4	96	70
	93	94	95		

Natural Gas Production

(millions of cubic feet per day)

Western Canada Crude Oil and

Field Liquids Production

(thousands of barrels per day)

1996 Highlights

- Acquired Amerada Hess Canada on April 3, 1996, adding proved reserves of 504 billion cubic feet of gas and 40 million barrels of liquids
- Added a further 276 billion cubic feet of gas and 13 million barrels of liquids through discoveries, extensions, revisions, asset exchanges and net purchases
- Near record Syncrude production with lower operating costs
- Focused asset base through property exchanges
- Gas production volumes exit 1996 at about 810 million cubic feet per day

Plans for 1997

- Continue gas reserves growth through value-adding investment activities
- Focus asset base through acquisitions and dispositions
- Continue to lower unit operating and overhead costs and gain operating efficiencies
- Reduce finding and development costs to between \$7 and \$8 per barrel of oil equivalent
- Apply technology to increase production and identify new opportunities

Project Milestones in 1997

- Feb.: Hibernia topsides and GBS joined
- June: Hibernia platform to be towed to location
- Aug.: Hibernia drilling to start
- Sept.: Terra Nova development plan approval and project initiation expected
- Dec.: First production from Hibernia

- Hibernia construction completed
- Strategic alliance with Norsk Hydro formed
- Terra Nova Development Plan Application filed
- Agreement reached on principles of Terra Nova fiscal regime
- Newfoundland Trans-shipment Terminal announced
- Terra Nova Contractor Alliance selected
- Exploration rights acquired

- Production start-up at Hibernia
- Terra Nova development plan approval and project initiation
- Undertake geological and geophysical work on exploration acreage
- Commence construction of trans-shipment facilities in Newfoundland

Algeria		Norway	
	5.2		6.5*
95	96	95	96

International Oil Production

(thousands of barrels per day)

Annualized

- Production start-up from Algeria in late May. Petro-Canada share 8 700 barrels per day (before royalty and sharing of profit oil)
- Strategic alliance with Norsk Hydro formed
- 6 500 barrels per day of production from North Sea

- Continue exploration on Algeria block
- Njord field to come on stream in fourth quarter of 1997, expected to produce 5 000 barrels of oil per day by end of 1998

	40.8			
5	36.8	37.5		
0	93	94	95	96

Straddle Plant Ethane and Natural Gas Liquids Production

(thousands of barrels per day)

- Successful plant turnaround in May enabled strong volume performance at Empress
- Retail transformation of ICG initiated

- Continually improve plant reliability and cost structure
- Complete ICG retail transformation
- Investigate value-maximizing options for ICG business

		93	93	99
5	79			
0	93	94	95	96

Average Refinery Utilization

(per cent)

- Record overall utilization of 99%
- Realized \$58 million in sustained annual expense and cost of sale savings from re-engineering initiative

- Maintain high reliability and capacity utilization
- Continue to optimize feedstock mix and drive towards low-cost competitive position
- Extend re-engineering

0				3.1	
5		2.5	2.8		
0	2.2	93	94	95	96

Average Throughput per Retail Site

(millions of litres)

- Again increased average retail throughput by more than 10%, to 3.1 million litres per site
- Continued roll-out of modern, low-cost retail outlet design including the SuperStop
- Successfully introduced new products such as WinterGas, Arctic Oil and SuperClean gasoline

- Expand retail re-engineering and new integrated business information system
- Further increase average retail throughput per site
- Build on strong brand awareness to increase productivity of marketing network
- Continue to build non-petroleum revenue

		452	442	466
50	408			
00	93	94	95	96

Lubricants Sales

(millions of litres)

- Completed plant expansion in December, on time and on budget
- Product available for sale by year end

- Secure markets for expanded production
- Capture full benefits from increased production capability

Highlights

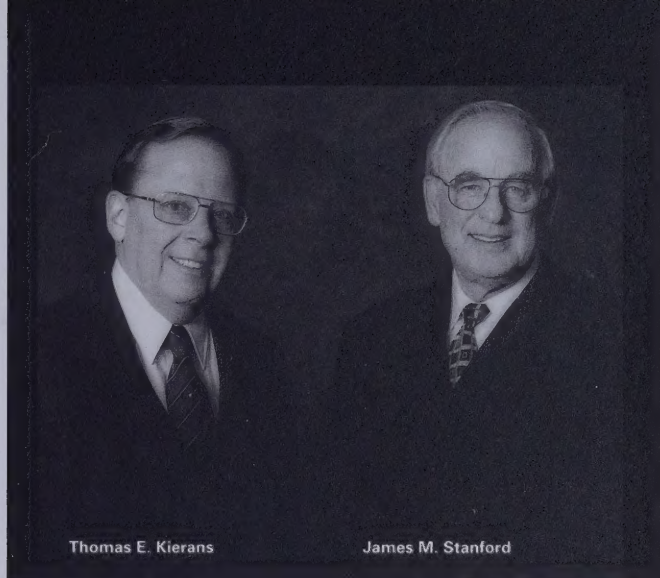
	1996	1995	1994
Financial (millions of dollars, unless otherwise indicated)			
Earnings from operations (in 1995 before organizational restructuring charge)	247	241	219
Net earnings	247	196	262
Cash flow	863	705	701
Per common share (dollars)			
Earnings from operations (in 1995 before organizational restructuring charge)	0.94	0.98	0.89
Net earnings	0.94	0.79	1.06
Cash flow	3.29	2.86	2.84
Dividends paid	0.20	0.20	0.1475
Expenditures on property, plant and equipment and exploration	959	853	702
Return on capital employed (per cent)	5.1	4.9	6.7
Cash flow return on capital employed (per cent)	15.3	14.8	15.9
Debt	1 709	1 381	1 259
Debt to debt plus equity (per cent)	31.6	30.9	29.9
Debt to cash flow (times)	2.0	2.0	1.8
Operating return on capital employed (per cent)			
(in 1995 before organizational restructuring charge)	5.1	5.7	5.8
Operating			
Crude oil and field natural gas liquids production,			
net before royalties (thousands of barrels per day)	97.3	79.4	73.3
Natural gas production, net before royalties,			
excluding injectants (millions of cubic feet per day)	712	546	540
Ethane and natural gas liquids production			
from straddle plants (thousands of barrels per day)	34.9	37.5	36.8
Proved oil and field natural gas liquids reserves,			
net before royalties (millions of barrels)	452	423	411
Proved natural gas reserves, net before royalties (trillions of cubic feet)	2.6	2.1	2.1
Refined petroleum product sales (thousands of cubic metres per day)	43.7	41.6	41.5
Average refinery utilization (per cent)	99	93	93

To Our Shareholders

Increasing the value of your investment in Petro-Canada is the driving force behind our vision of becoming the pre-eminent integrated oil and gas company in Canada. Petro-Canada's 1995 Annual Report described a clearly defined path to profitable growth as the key to creating superior shareholder value. Petro-Canada advanced steadily along that path in 1996, a year of impressive financial performance and strategic accomplishment, and is firmly on course for continued value creation.

We were gratified to see our people's efforts recognized by the financial markets, as Petro-Canada's stock price reached a new high of \$20.60 in 1996 and ended the year up 23 per cent. That the market has confidence in this company was further demonstrated by Petro-Canada's successful debt and equity issues in early 1996 and by our inclusion in The Toronto Stock Exchange's Toronto 35 Index in February of 1997.

In the Upstream, Petro-Canada strengthened its already dominant position offshore Newfoundland. The completion of construction of Hibernia was a major milestone in 1996, as was the filing of a Development Plan Application for the Terra Nova oil field. Petro-Canada's alliance with Norsk Hydro, which gives Petro-Canada producing oil properties in the North Sea, was a significant achievement because it gives us the financial flexibility to accelerate oil field development and our return to exploration on the Grand Banks.



Thomas E. Kierans

James M. Stanford

Moving quickly to capitalize on this opportunity, Petro-Canada participated in the acquisition of four parcels on exploration lease from the Government of Newfoundland, in which we and our allies collectively plan to invest \$125 million over the next five years. A new generic royalty regime provides a predictable fiscal environment for future Grand Banks projects.

Petro-Canada's acquisition of Amerada Hess Canada Ltd. increased our natural gas production by approximately 40 per cent and our conventional crude oil and field natural gas liquids production by approximately 25 per cent, and provided significant exploration and development opportunities. Two major property swaps allowed us to sharpen the Company's focus on the natural gas business. Through exploration and development activities, the Company replaced about 90 per cent of its gas production in 1996, and our investment in the Syncrude oil sands mining operation continued to perform very well. On the international front, Petro-Canada had production from Algeria and from the Norwegian sector of the North Sea for the first time in 1996.

In the Downstream, Petro-Canada's expanded lubricants facility came on stream in December. Our Downstream operation remained profitable despite a difficult business environment characterized by rising crude prices and intense competitive pressures. Sales and market share increased, throughput per retail site and refinery utilization reached record levels, and costs remained under strict control.

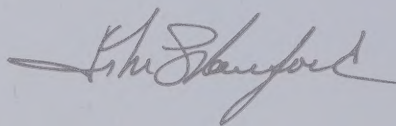
Petro-Canada operates on the principles of Value Based Management, which directs us to maximize investments in those businesses that provide the highest returns. We constantly re-evaluate our portfolio of businesses with an eye to maximizing value created for shareholders. To that end, we have placed a group of non-core assets equivalent to about 10 000 barrels per day of production on the market which we expect to sell in early 1997.

Financial performance in 1996 was very strong, driven by an outstanding year for our Upstream operations. Consolidated net earnings were \$247 million, an increase of \$51 million over 1995. Earnings from operations were also \$247 million compared with 1995 earnings from operations of \$241 million, before restructuring charges of \$52 million after tax. Consolidated cash flow increased to a record \$863 million, up \$158 million from \$705 million a year earlier.

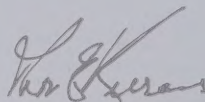
Petro-Canada's achievements in 1996 are a tribute to our employees, whose dedication allowed this company to thrive in a challenging business environment. We have focused a great deal of our attention on defining the key capabilities required for excellence in all of our businesses and are working with our employees to promote development of

these capabilities. Nineteen ninety-seven promises to be an exciting year for employees and shareholders alike, as Petro-Canada will invest \$950 million in our numerous growth projects and to sustain existing businesses.

Petro-Canada's key growth engines in 1997 and beyond are increased natural gas production in Western Canada, Grand Banks oil, and refining and marketing. Petro-Canada shareholders and employees will look back on 1997 as the year Hibernia came on stream, a period when their company returned to exploration with renewed vigour in Western Canada and on the Grand Banks and had its first full year of production from our expanded, state-of-the-art lubricants facility. These initiatives drive the profitable growth that will go on creating value for Petro-Canada's shareholders in the future.



James M. Stanford
President and Chief Executive Officer



Thomas E. Kierans
Chairman of the Board

Upstream Sector Review

Norm McIntyre



Upstream Sector - Key Results

	1996	1995	1994
FINANCIAL (millions of dollars)			
Earnings from operations	192	153	153
Gains on asset sales	4	6	19
Gain on sale of TroCana Resources	-	-	21
Net earnings	196	159	193
Cash flow	655	477	448
OPERATING			
Crude oil and natural gas liquids production (thousands of barrels per day)	97.3	79.4	73.3
Natural gas production (millions of cubic feet per day)	712	546	540
Ethane and natural gas liquids production from straddle plants (thousands of barrels per day)	34.9	37.5	36.8

Petro-Canada's Upstream oil and gas business finds, develops, produces and markets hydrocarbons. Our continued success at creating value in this business is dependent on our ability to deploy capital efficiently and maintain superior operating performance.

Our Upstream operations seek to expand production and revenue by extracting maximum value from existing assets while positioning for long-term growth from light oil on the Grand Banks and gas in Western Canada. Petro-Canada will continue to exploit Western Canada light oil assets, retain core natural gas liquids assets and focus our international efforts on light oil.

We have made great progress in 1996, a year of many achievements of which all of Petro-Canada's employees can be proud. Our production base in Western Canada increased significantly with the acquisition of Amerada Hess Canada. Our position in midstream facilities, undeveloped land and exploration prospect inventory was also enhanced. Asset swaps further strengthened our natural gas business. Algerian production came on stream in late May. We filed a Development Plan Application for the Terra Nova field in August.

In December, Petro-Canada concluded a strategic alliance with Norsk Hydro and announced the successful contractor alliance for the Terra Nova floating production system.

The future of Petro-Canada's Upstream business looks very bright. Hibernia will come on stream in late 1997 and Terra Nova could come on stream in late 1999. At peak levels these two fields will produce approximately 56 000 barrels per day for Petro-Canada. Syncrude production will increase gradually over the next few years and provide the Company with a reliable source of cash flow and reserves. We will continue exploration and development drilling for oil and gas in Western Canada and on identified prospects in Algeria. Given continued drilling success in Western Canada, on the Grand Banks and internationally, Petro-Canada's daily production level in five years should be 250 000 barrels of oil equivalent, almost twice the 1995 level.

With an energetic and capable employee group, a focused asset base, ample growth opportunities and a relentless drive to improve operating performance, Petro-Canada is well positioned to continue generating shareholder value in the years to come.

Norman F. McIntyre
Executive Vice-President



PETRO-CANADA IS RETURNING TO
EXPLORATION IN WESTERN CANADA.

Western Canada Oil and Gas

Natural gas gains momentum

Petro-Canada's current main engine of growth in Western Canada is natural gas, and steps were undertaken in 1996 to expand this key business. Petro-Canada is capitalizing on growth opportunities arising from the acquisition of Amerasia Hess Canada Ltd. The \$735 million acquisition strengthens Petro-Canada's drive for gas growth by adding 501 million cubic feet of proved natural gas reserves and 10 million barrels of proved crude oil and liquids reserves, solid exploration potential and high working interest positions in numerous gas plants. Many of the producing properties acquired are concentrated in west central Alberta, a core area for Petro-Canada.

Petro-Canada returns to exploration

Bolstered by its expanded asset base, Petro-Canada is committed to grow through full-cycle exploration in Western Canada. In 1996, the Company added over 800,000 acres of undeveloped land and increased exploration spending to \$93 million. In 1997, Petro-Canada plans to drill approximately 60 exploratory wells, with exploration expenditures rising to about \$120 million.

The Company's portfolio includes exploration and development prospects in four primary geographic areas: Alberta foothills, northeastern British Columbia, the deep

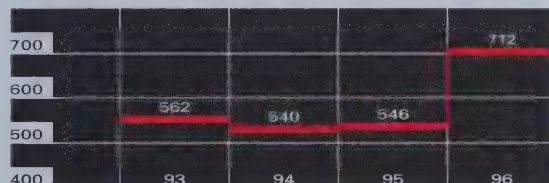
basin of west central Alberta and the west central plains of Alberta. The Alberta foothills, which was the source of 90 million cubic feet of gas equivalent reserve additions in 1996, is a key area of focus.

Swaps and divestitures focus

Western Canada asset base

An active acquisition and disposition program is another component of Petro-Canada's natural gas growth initiative. By exchanging non-core, fully valued assets for core assets and prospects, the Company is able to maximize returns from its priority plays. The Company has identified certain core oil and gas properties with daily production of approximately 60 million (bbl./day) of natural gas and 1,000 bbl./day of oil and natural gas liquids for divestiture in early 1997. Petro-Canada will receive proceeds of these divestitures in Western Canada core areas with the greatest potential to create value.

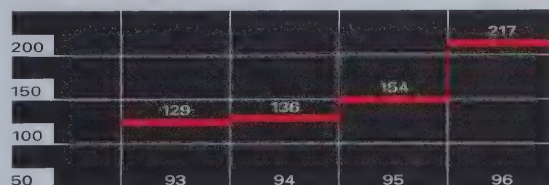
Daily gas production excluding injectants, net before royalties



(millions of cubic feet)

New discoveries and properties acquired from Amerasia Hess Canada Ltd. boosted gas production in 1996.

Gas reserve additions from discoveries and extensions, net before royalties



(billions of cubic feet)

Increased exploration resulted in significant gas discoveries in 1996.

NATURAL GAS FROM WESTERN CANADA IS ONE
OF PETRO-CANADA'S KEY ENGINES OF GROWTH.



In September, Petro-Canada exchanged its 100 per cent interest in the Golden Lake heavy oil property for \$22.5 million cash plus interests in the Benjamin Creek and Limestone natural gas properties, which are located adjacent to existing Alberta foothills area assets. In another transaction, the Company exchanged its natural gas interests in the Scotian Shelf for interests in the Ferrier, Gilby, Ricinus and Notikewan areas of Western Canada, which include some attractive exploration acreage. Through the Amerada Hess Canada Ltd. acquisition and the Scotian Shelf swap, Petro-Canada now has a 99 per cent interest in the Ferrier property, which produced 2 100 barrels of oil per day in 1996 and has remaining reserves of 19 million barrels of oil.

Technology makes an impact

Petro-Canada employs state-of-the-art three-dimensional seismic technology and horizontal drilling to define new prospects and optimize production from existing fields.

By year end 1996, horizontal drilling accounted for 10 per cent (75 million cubic feet per day) of the Company's total gas production, a proportion expected to rise in the future. At Wildcat Hills, 35 billion cubic feet of gas reserves were added by drilling horizontally into a structure identified by three-dimensional seismic. At Gold Creek, 24 billion cubic feet of gas equivalent reserves were added through horizontal drilling. These liquids-rich reserves will be processed through the Gold Creek plant, which was recently expanded. Significant production gains also came from key areas such as Jedney and Clarke Lake. Petro-Canada has identified additional natural gas targets for exploitation via horizontal drilling in 1997.

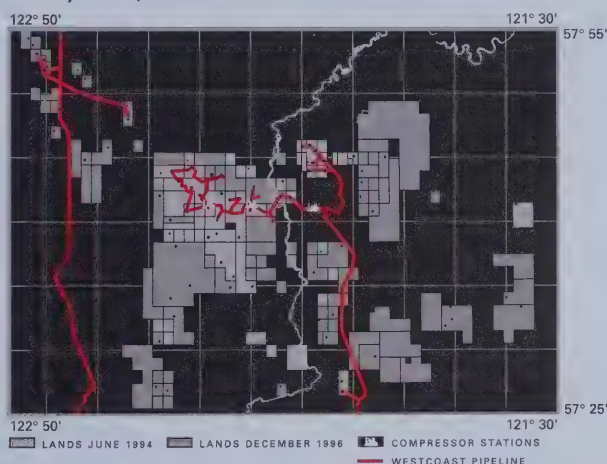
Plant planning: expansion and utilization

Petro-Canada is adding natural gas processing capacity and taking advantage of unused capacity in existing plants. A new plant owned and operated by Westcoast Gas Services and contracted to process Petro-Canada and other producers' gas was completed at Jedney, British Columbia and began processing in December. Capable of handling 70 million cubic feet of natural gas per day, it will likely be expanded in 1997.

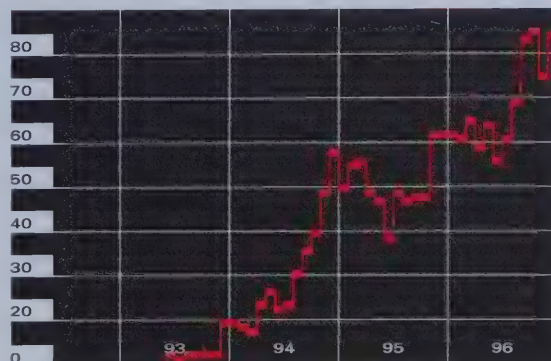
Natural gas growth at Tommy Lakes

Petro-Canada began development of the Tommy Lakes area in northeastern British Columbia with an exploration drilling program and construction of some facilities in 1994. The Company quickly recognized the area's growth potential.

Tommy Lakes, British Columbia



Gas Production from Horizontal Wells



(millions of cubic feet per day)

Petro-Canada's increased use of horizontal drilling technology has helped increase natural gas production.

By the winter of 1995/96, more than 30 wells had been drilled and production had climbed to over eight million cubic feet per day from zero just two years earlier. In early 1996, the asset team for the area recommended a bold approach: aggressively buy land, then launch a simultaneous winter seismic, drilling and facility installation program to avoid the summer access challenges posed by muskeg in the area. As a result, Petro-Canada bought out several competitors in 1996, increasing the Company's acreage position significantly.

During this winter of 1996/97, the Company will complete a major program of new drilling, tie in 25 wells, and install 75 kilometres of pipeline with six gas turbine compressors, a program which might normally have taken three years. Petro-Canada expects new production from the area to add over 15 million cubic feet of daily production in 1997, building significant momentum for Petro-Canada's gas growth.

Crude oil and liquids reserves boosted

Petro-Canada is a substantial producer of conventional crude oil in Western Canada, a position strengthened by the acquisition of Amerada Hess Canada Ltd., which added approximately 40 million barrels of proved reserves. Petro-Canada's daily oil production from Western Canada in 1996 was 48 400 barrels.

Natural gas liquids generate cash flow

Low inventory levels and a colder-than-average winter kept prices high and demand strong for natural gas liquids in 1996. As a result, cash generation was up significantly for the second consecutive year.

Petro-Canada continues to evaluate strategic options for its retail propane subsidiary, ICG Propane. ICG adopted a new brand positioning, business processes, and technology during 1996, and made substantial progress in transforming the Company's retail propane business in an extremely difficult business environment.

Syncrude interest provides growth opportunities

The Syncrude oil sands plant, in which Petro-Canada has a 12 per cent interest, is a reliable source of cash flow, production and long-life reserves. A new generic royalty formula for Syncrude, which accelerates writeoffs for capital costs, comes into effect in 1997 and will spur numerous growth opportunities for Syncrude partners in the next five to seven years. These projects include a northern extension of the mine site, debottlenecking of the upgrading plant and development of the Aurora mine on the east side of the Athabasca River. Petro-Canada's share of the capital cost of these projects is about \$146 million, of which \$13 million will be spent in 1997.

Petro-Canada's share of production from Syncrude averaged 24 100 barrels per day in 1996 and is expected to increase by about 10 000 barrels per day over the next 10 years through further mine expansion and process improvements.

Other oil sands

Petro-Canada is one of the largest holders of in-situ oil sands leases in the Athabasca area, with interests varying from 15 per cent to 100 per cent. During the winter of 1996/97, Petro-Canada began a significant core hole drilling program to evaluate and delineate the in-situ reserves. Evaluation of the results will continue in 1997.

HIBERNIA COMES ON STREAM IN 1997.
PETRO-CANADA'S SHARE OF PEAK PRODUCTION
WILL BE 27 000 BARRELS OF CRUDE OIL PER DAY.

Terra Nova



PETRO-CANADA IS OPERATOR OF THE TERRA NOVA OIL FIELD,
LOCATED 35 KILOMETRES SOUTHEAST OF HIBERNIA OFFSHORE NEWFOUNDLAND.
TERRA NOVA COULD COME ON STREAM IN LATE 1999.



PETRO-CANADA'S SHARE OF PRODUCTION FROM
THE VESLEFRIKK FIELD AVERAGED 6 500 BARRELS
OF LIQUIDS IN 1996.



PETRO-CANADA'S ESTIMATED SHARE OF
TERRA NOVA WILL BE 29 000 BARRELS OF
CRUDE OIL PER DAY AT PEAK PRODUCTION.

TERRA NOVA'S STEEL MONOHULL
FLOATING PRODUCTION SYSTEM WILL BE A
MODEL FOR FUTURE GRAND BANKS OIL DEVELOPMENT.

Grand Banks Oil and International Oil

Grand Banks oil is a cornerstone of Petro-Canada's growth plans. There are several reasons why the oil industry has been attracted to this region offshore Newfoundland. The area has proven to contain large quantities of oil, and finding costs are low. Technology development, particularly floating and sub-sea technology, has resulted in very competitive development and operating costs, and the Province of Newfoundland and Labrador has established a royalty regime that is profit sensitive and fair to all stakeholders.

Advances in floating production system technology over the past 10 years have substantially lowered the capital and operating costs of offshore production, to the point where pools are now being developed in the North Sea at costs not much different than the average per barrel capital and operating costs typical in Western Canada.

Petro-Canada is involved in the first two major Grand Banks oil developments: Hibernia, which contains over 600 million barrels of light, sweet crude and Terra Nova, whose reserves are independently estimated at 300 to 400 million barrels. Petro-Canada is the operator of Terra Nova. The Company owns about 353 million barrels of probable and possible reserves of Grand Banks oil according to Canada-Newfoundland Offshore Petroleum Board estimates, and Petro-Canada believes there is significant upside in this number. This represents 22 per cent of the resources discovered in 17 significant discoveries made to date on the Grand Banks.

Norsk Hydro alliance brings strategic benefits

In December, Petro-Canada finalized a strategic alliance agreement with Norsk Hydro. The financial flexibility afforded by this agreement will allow Petro-Canada to accelerate field development and further exploration on the Grand Banks. In exchange for interests in Hibernia, Terra Nova and other Grand

Banks discoveries, Norsk Hydro will contribute approximately \$85 million toward Petro-Canada's share of capital costs to develop Hibernia and Terra Nova. The alliance provides Petro-Canada with interests in two North Sea fields and access to the Norwegian firm's considerable offshore expertise.

First oil from Hibernia in 1997

Petro-Canada sees Hibernia as the foundation of a bright future for the emerging Grand Banks oil industry. The project is on budget and on schedule. The last phase of construction of the topsides and gravity base structure was completed during 1996. The topsides and the concrete platform will be joined in the spring and towed to location in June. The Company expects first oil from Hibernia to flow in December.

At peak production, Hibernia will produce 135 000 barrels per day, of which Petro-Canada's share will be 27 000 barrels. As part of its strategic alliance with Norsk Hydro, the Company has reduced its working interest in the Hibernia project to 20 per cent from 25 per cent.

Terra Nova development progressing

Petro-Canada took significant steps to accelerate the development of the Terra Nova field during 1996. These include the filing of a Development Plan Application, now under review by a regulatory panel, the signing of a letter of intent regarding benefits principles and fiscal terms, and the selection of a contractor alliance to design and construct the steel monohull floating production system.

The panel is expected to render a decision on the Development Plan Application in the fall of 1997 and, assuming a successful result, project development will proceed immediately thereafter. At peak, Petro-Canada's estimated share of Terra Nova production will be 29 000 barrels per day. As part of its strategic alliance with Norsk Hydro, the Company reduced its working interest in Terra Nova. Once it reaches a unitization agreement with all of the Terra Nova participants, Petro-Canada expects its working interest to be 29 per cent.

The successful alliance contractor, the Grand Banks Alliance group, is currently engaged in pre-engineering work and will share the project's risks and rewards based on agreed cost and scheduling targets. Pre-production, which includes construction and installation of floating production and subsea systems and the drilling of pre-production wells, is expected to cost approximately \$1.6 billion.

Petro-Canada returns to exploration on the Grand Banks

Petro-Canada, along with six other Hibernia stakeholders, took steps during 1996 to solidify future Grand Banks development by successfully bidding a combined work commitment of \$125.5 million to acquire four new parcels in the Jeanne d'Arc Basin. Petro-Canada now holds a 23.33 per cent working interest in these parcels. Petro-Canada also reached agreement with Albit Oil Canada Properties and Chevron Canada Resources to construct a regional transmission facility at Whiterose Point, Newton Island, which will enhance the infrastructure of the area and further encourage new developments.

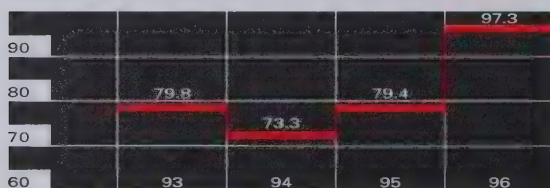
Norway and the North Sea

As a part of the Norsk Hydro alliance, Petro-Canada acquired working interest in two oil fields in the Norwegian sector of the North Sea. Petro-Canada's share of daily production from the Vostevakk field, in which it has a nine per cent interest, averaged 6,500 barrels of liquids in 1996. The Company also acquired a 7.5 per cent interest in the Njord field, which is expected to come on stream in late 1997 and produce 5,000 barrels of oil per day by the end of 1998.

Algeria delivers first oil

First oil from the Tamadanet field, the Company's joint venture with Sonatrach, the Algerian national oil company, was brought on stream at 12,500 barrels per day in late May.

Daily Oil and Liquids Production, including Syncrude



(thousands of barrels)

International activity helped boost oil production in 1996.

Petro-Canada's share of production, before royalties and sharing of profit oil, was 8,700 barrels per day over the remainder of the year. Development activity and production during the year resulted in a reduction in gross proved and probable reserves for the Tamadanet field from 43 million barrels to 20 million barrels.

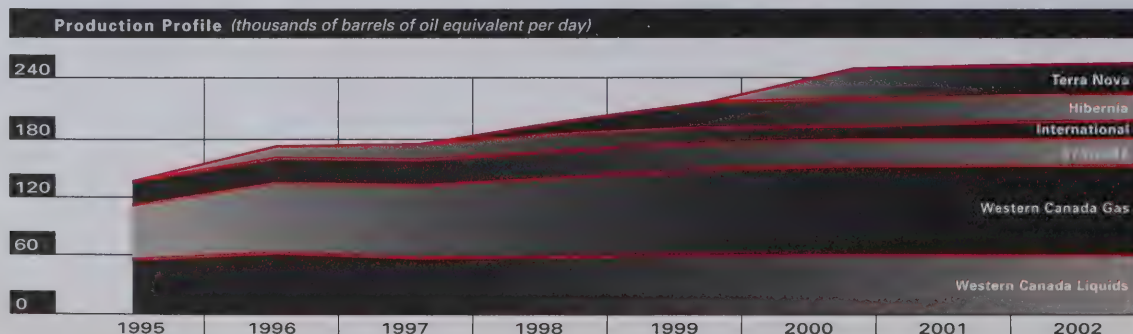
1997 and Beyond

The Grand Banks will provide the foundation of the Company's future light oil growth. First oil from the Hibernia project is expected in December 1997, following joining of the topsides and Gravity Base Structure in February and tow-out to the offshore location in June. A regulatory panel is reviewing the Terra Nova Development Plan Application and a decision is expected in the third quarter. Pending a favorable outcome, Terra Nova could come on stream in late 1999, almost two years ahead of the original schedule. In addition, exploration will commence on the four Grand Banks parcels acquired in the fall of 1996.

In Western Canada, Petro-Canada will continue to build on its inventory of exploration and development prospects, including those acquired from Amerada Hess Canada Ltd. In 1997, the Company plans to drill approximately 60 exploratory wells and is continuing to acquire land.

Petro-Canada will manage its Western Canada oil properties to maximize cash flow in the short to medium term. The Company will continue to reduce its interests in mature properties with limited future potential and invest in properties with greater development prospects.

On the international front, Petro-Canada will continue its exploration and development drilling program commitments in Algeria. The Company will also consider the possibility of drilling a southern extension to the Tamadanet field. The Njord field, in the Norwegian North Sea, is expected to come on stream in December 1997, providing another source of international light oil supply.



Jim Pantelidis



Downstream Sector - Key Results	1996	1995	1994
FINANCIAL (millions of dollars)			
Earnings from operations	130	160	136
(Losses) gains on asset sales	(3)	1	2
Net earnings	127	161	138
Cash flow	243	305	295
OPERATING			
Refined petroleum product sales (thousands of cubic metres per day)	43.7	41.6	41.5
Refinery crude capacity at year end (thousands of cubic metres per day)	45.4	45.4	45.1
Average refinery utilization (per cent)	99	93	93

Our strategy in the Downstream is to maximize earnings and cash flow by converting crude oil to cash in the shortest possible time through controlled market channels, providing the highest value products and services. Through an integrated approach to our refining and marketing business, we aim to optimize development of regional markets.

In 1996, we achieved a five per cent increase in refined petroleum product sales, while posting record capacity utilization in our three refineries and record retail throughputs per site. Retail volumes were at their highest level since 1989, when the Company's network was almost twice the size.

These results were achieved despite extremely challenging conditions in the marketplace, as crude prices rose steadily and unexpectedly throughout the year and an intense price war in Eastern Canada made a tough situation worse. As a result of these external market factors, net earnings in the Downstream declined to \$127 million from \$161 million a year earlier. Indicative of our solid operating performance, return on capital employed of six per cent was highest among the Canadian integrated companies.

Our plants have been reconfigured to process a range of feedstocks, including additional heavy and sour crude capability. Redesigned maintenance and operating procedures have made our facilities more reliable and efficient.

In marketing, our goal is to establish brand superiority by building on our unique Canadian identity and tailoring our offering so that Canadians will want to shop at Canada's Gas Station. We've taken significant forward strides in retail during 1996, with the roll-out of our sleek, new stations and our first SuperStop outlets. SuperStop represents a milestone in convenience retailing and a significant opportunity for growth in non-petroleum revenue. During 1996, an average of 32 per cent of our retail sales volume was associated with Petro-Points, our proprietary loyalty program. We will add value and breadth to the program in 1997 by selectively adding new retail partners who will be issuing Petro-Points in support of our brand.

We successfully introduced new products such as Arctic Oil, WinterGas and SuperClean gasoline, integrated initiatives which helped push retail volumes and throughputs to new levels in 1996. In the wholesale market, our Petro-Pass cardlock operations helped us achieve a sharp increase in fuel sales. Finally, our recently completed lubricants expansion delivers new processing/product capability and positions us to aggressively pursue foreign and North American markets for white oils and high-viscosity-index lubricating oils. In 1996, sales to international markets comprised 43 per cent of total lubricants sales volumes.

Conditions in the lubricants market are weak at present, but we are well positioned to benefit from expected growth in this high-margin business in the next two to three years.

As we move forward in 1997, we will strive to improve upon our industry leading results. Our people, processes and programs leave us poised to deliver superior financial performance as oil prices stabilize and the business environment improves.

James Pantelidis
Executive Vice-President

SUPERSTOP CONVENIENCE STORES
REPRESENT A MILESTONE IN CONVENIENCE RETAILING AND
AN OPPORTUNITY FOR GROWTH IN NON-PETROLEUM REVENUE.



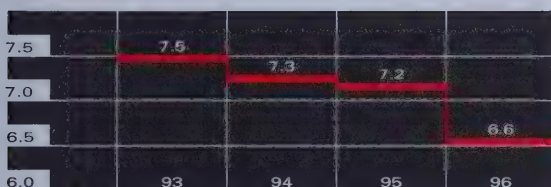
6.9
Self
Full
Car Wash



1996 Developments

Refining and Marketing

Expenses* per litre



(cents)

*Producing and refining, marketing, G&A, depreciation and taxes other than income taxes. Crude oil and product purchases not included.

In Petro-Canada's continued drive to be the most efficient downstream competitor, we have reduced our unit costs by 8.3 per cent since 1995 and 12 per cent since 1993.

Refineries running at near full capacity

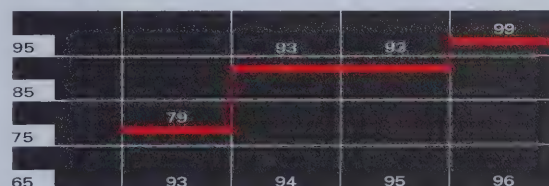
Increasing utilization allows the fixed costs of a refinery to be distributed over a larger volume, thereby reducing cost per unit processed.

In 1996, Petro-Canada's three refineries ran an average of 45 000 cubic metres of crude oil every day. This resulted in record crude capacity utilization of 99 per cent, up from 93 per cent the previous year. Debottlenecking of facilities and improved reliability and shutdown procedures aided the increased utilization.

Managing the controllable

Petro-Canada is managing input costs through rigorous inventory management. *The more rapidly crude oil and other feedstocks can be converted into the highest-value products and sold, the greater the earnings and cash-flow potential.* Since 1990, the Company has reduced inventory and the days-forward supply of crude oil and products by approximately 35 per cent. Meanwhile, design and process improvements at Petro-Canada's refineries allow greater flexibility in the variety of crude oil and other feedstocks being purchased and processed. By optimizing its feedstock mix, the Company is able to minimize input costs.

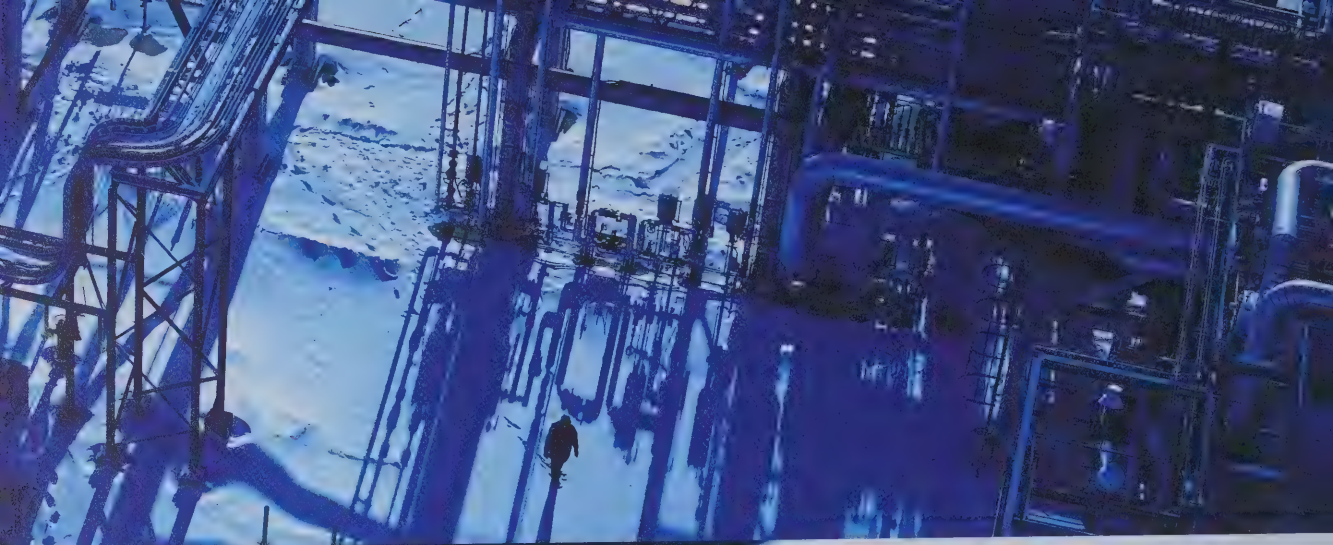
Refinery Utilization



(per cent)

Refinery utilization reached record levels in 1996.

Downstream Earnings from Operations (millions of dollars)					Total 1996	Total 1995
	Q1	Q2	Q3	Q4		
Refining and Supply	29	21	13	24	87	99
Marketing	9	18	10	6	43	61
Total Downstream	38	39	23	30	130	160
Margins (cents per litre)						
Rack Back (Refining and Supply) Margin	2.1	1.8	1.2	1.5	1.6	1.8
Rack Forward (Marketing) Margin	4.5	5.3	4.7	4.5	4.7	5.0



PETRO-CANADA'S EXPANDED LUBRICANTS PLANT
HAS REDUCED PER-UNIT PROCESSING COSTS AND
PROVIDES A HIGHER-MARGIN PRODUCT MIX.

Re-engineering brings benefits

Petro-Canada is continually improving its refining operations, maintenance procedures and management of supply in its drive to be a low-cost producer of quality refined petroleum products and services. In 1996, the rack back business garnered the full benefit of a re-engineering initiative, resulting in estimated annual before-tax expense and cost of sale savings of \$58 million.

New-look sites build profile and visibility

Petro-Canada is distinguishing itself from the competition with marketing programs designed to raise its visibility and profile as Canada's Gas Station.

The Company's new site design is attractive and functional, and customer response to date has been excellent. The "starting gate" pump island allows faster, easier customer access, including pay-at-the-pump convenience at selected locations, while resulting in lower maintenance and operating costs. In addition to a broader offering of convenience products and services, the new-look sites address customer demand for increased security through improved lighting and clear lines of sight from the pump island to the attendant.

SuperStop: a new era in convenience retailing

Petro-Canada is aggressively responding to the needs of retail consumers and the expectation of continually tight gasoline margins. In 1996, the Company opened three 5 000 square foot SuperStop convenience stores, the culmination of more than two years of intensive consumer research. The flagship application of the Company's sleek, futuristic site design, SuperStop offers guests an exceptional selection of convenience products and services such as branded fast food,

gourmet coffee and baked goods, banking services, and fresh produce. SuperStop is supported by a team of retail specialists who carefully tailor product and service offerings in various categories to changing consumer demands. Smaller sites feature SuperStop Express.

Petro-Points builds repeat business

In addition to offering superior products and service at competitive prices, Petro-Canada is gaining new customers and strengthening relationships with existing ones. The proprietary Petro-Points program, which rewards repeat customers with points they can redeem for automotive merchandise, enhances the Company's identity and connection with the Canadian motorist and bolsters brand awareness. Petro-Points is being expanded with new offerings and new retail partners in specific customer segments.

New products enhance brand equity

Petro-Canada is a leader in tailoring its refined petroleum products to the unique needs of the market it serves. In November, the Company introduced WinterGas, a specially formulated fuel suitable for all vehicles and designed to prevent gas line freezing, a harsh reality of the Canadian winter. To complement WinterGas, Petro-Canada also introduced Arctic Oil, a premium synthetic blended oil designed to maintain lubricating performance at temperatures as low as -40° celsius. In June, Petro-Canada introduced SuperClean gasoline in Ontario, providing enhanced engine performance and emissions benefits.

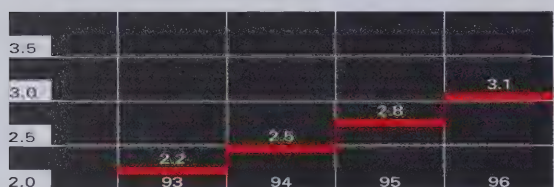
Wholesale fuels post major improvement

The Company is continuing to reap rewards from its Petro-Pass commercial cardlock network, which serves truckers at approximately 150 locations coast-to-coast. Fuel sales at Petro-Pass outlets were up 14 per cent in 1996 compared with 1995, the third consecutive year of double-digit improvement. The upgrading of Petro-Pass sites, completed during 1995 and geared to providing superior service and convenience features, gives Petro-Canada a competitive edge in the fast-growing diesel fuels market. Wholesale volumes through bulk plants posted a three per cent increase over 1995, aided by aggressive marketing and increased economic activity.

Marketing programs boost sales, throughputs

Petro-Canada's marketing initiatives are having a major impact on retail gasoline sales and resulting in greater on-site efficiencies. Incentive programs and incentive-based relationships with retail associates increase the level of risk/reward sharing and enhance the Company's marketing effectiveness. As a result of Petro-Canada's programs, annual retail sales in 1996 jumped 9.0 per cent to 7.585 million litres. Average annual throughput per site rose 11 per cent from 2.0 million litres in 1993 to 2.2 million litres in 1996/97 expected to be the highest among the national integrated oil companies.

Average Throughput per Retail Site



(millions of litres)

Lubricants expansion: on time, on budget

Petro-Canada completed a \$135 million expansion of its Mississauga lubricants plant on time and on budget in December. Plant start-up proceeded successfully, with product available on site prior to year-end. In addition to automotive lubricants, the plant produces index viscosity-index lubricating oils, engine oils used in the manufacture of a variety of products in the pharmaceuticals, cosmetics, and plastics industries. The expansion almost doubles annual capacity in throughput to about 1,500 million litres of base oils, reduces per-unit processing costs, and provides a higher-margin product line. Petro-Canada added six new countries to its lubricants customer list during 1996.

Expenses from the lubricants business were marginal in 1996, costs related to expansion start-up, higher feedstock prices, and international competitive reasons including additional capacity and aggressive pricing tactics, constrained lubricants earnings this year.

1997 and Beyond

Petro-Canada has completed the rationalization of its refinery and retail networks, dramatically improving the financial position of its Downstream business over the past few years. *The Company will continue to focus on improving its pacesetting performance in the controllable aspects of the business: refinery efficiency, marketing throughputs, increased non-petroleum revenue, and vigilant management of expenses.*

Petro-Canada will examine additional re-engineering opportunities to add to the established benefits, with \$35 million allocated for investment in business systems and programs. Investment in the Downstream will total approximately \$215 million in 1997, primarily to accelerate the enhancement of retail operations and to improve the efficiency and profitability of refineries and the recently expanded lubricants business.

Growth in marketing will focus on building brand superiority. Approximately 60 more new-look sites will be rolled out in 1997, 15 of which will be the flagship SuperStop convenience stores. In addition to generating above-average throughputs per site, the new-look sites strengthen non-petroleum revenue and provide a buffer against weak gasoline margins. Extension of the proprietary Petro-Points loyalty program will continue with the introduction of new retail partners and enhanced incentives for customer participation.

The lubricants business will benefit from lower per-unit processing costs, a broader range of higher-margin products, and expected improvements in base oil margins over the next two to three years.

Wesley Twiss



Key Financial Results	1996	1995	1994
CONSOLIDATED			
<i>(millions of dollars, unless otherwise stated)</i>			
Earnings from operations before organizational restructuring charge	247	241	219
Organizational restructuring	-	(52)	-
Earnings from operations	247	189	219
Unusual item and gains on asset sales	-	7	43
Net earnings	247	196	262
Per share (dollars)	0.94	0.79	1.06
Cash flow	863	705	701
Per share (dollars)	3.29	2.86	2.84
Operating return on capital employed (in 1995, before organizational restructuring charge) (per cent)	5.1	5.7	5.8
Return on capital employed (per cent)	5.1	4.9	6.7
Cash flow return on capital employed (per cent)	15.3	14.8	15.9
Expenditures on property, plant and equipment and exploration	959	853	702
Debt	1 709	1 381	1 259
Debt to cash flow (times)	2.0	2.0	1.8
Debt to debt plus equity (per cent)	31.6	30.9	29.9
Cash	32	43	95

Petro-Canada's primary objective remains the creation of shareholder value. We were very successful in this area in 1996, as Petro-Canada's share price increased 23 per cent over the course of the year, adding to the 38 per cent increase achieved in 1995. We were also pleased to be included in the Toronto 35 Index in early 1997.

The Company follows the principles of Value Based Management, which involves assessing the value-creating potential of our various opportunities and allocating resources to the best opportunities in businesses offering the greatest potential.

Sound management processes throughout Petro-Canada ensure that the Company continually seeks new ways to build value and to eliminate activities that do not add to shareholder value.

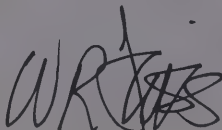
A good example of this approach in 1996 was Petro-Canada's acquisition of Amerada Hess Canada Ltd., which we purchased at a cost of about \$6.50 per barrel of oil equivalent (proven plus half probable reserve estimates). The acquisition was immediately accretive to cash flow per share, contributing an estimated \$85 million of cash flow during the last three quarters of 1996, and was financed conservatively, with roughly equal amounts of equity and long-term debt, consistent with our balance sheet targets.

Maintaining financial flexibility is a key element to the achievement of our growth goals. The Norsk Hydro alliance, which closed in December 1996, allows Petro-Canada to accelerate development of its other Grand Banks reserves and return to exploration in the region because it immediately increases cash flow and reduces capital requirements for the Hibernia and Terra Nova developments. Based on current plans, we estimate that this alliance will reduce our cash requirements for Grand Banks activities by about \$250 million over the next five years.

Petro-Canada faces a variety of risks which we manage in various ways, including adequate insurance coverage and hedging of commodity exposures under closely controlled conditions. Petro-Canada's hedging policy, which was conceived when the Company was less financially robust than it is today, is designed to ensure cash flow for investment projects. The program yielded negative results in 1996 as a result of unexpectedly high commodity prices. We have no material commodity hedges in place for 1997. Our improved financial situation now gives us the flexibility to re-evaluate the Company's hedging policy.

We want to ensure that financial markets reflect fair value for Petro-Canada's securities. Our vigorous Investor Relations program aims to broaden the shareholder base and include more foreign investors as a means of boosting shareholder value. We created variable voting shares, which meet the requirements of the legislation under which we operate while allowing non-residents of Canada the opportunity to own a larger portion of our equity. Non-resident ownership of Petro-Canada's shares was about 16 per cent of the public float at the end of 1996. Our Investor Relations department is working hard to increase this measure.

We will continue to support profitable growth and to seek creative financial solutions in the future, with an eye to creating shareholder value and maintaining the strength of Petro-Canada's balance sheet.

A handwritten signature in dark ink, appearing to read 'WRT', with a stylized flourish at the end.

Wesley R. Twiss
Executive Vice-President

Financial Performance

Management's Discussion and Analysis is a periodic, more detailed document included in the company's annual reports and available on request (see inside back cover).

In 1996, Petro-Canada achieved net earnings of \$217 million (\$0.94 per share) an increase of \$33 million over 1995. Earnings from operations were also \$217 million (\$0.94 per share), compared with 1995 earnings from operations of \$244 million (\$0.93 per share) before restructuring charges of \$52 million after tax.

Consolidated cash flow increased to \$300 million (\$3.29 per share), up \$150 million from \$150 million (\$2.00 per share) a year earlier. The restructuring charge reduced 1996 cash flow by \$26 million.

The Upstream sector earned \$192 million from operations in 1996, an increase of \$39 million over 1995, driven primarily by higher production volumes and commodity prices.

Upstream Factor Analysis



(millions of dollars)

Downstream Factor Analysis



(millions of dollars)

These improvements were partially offset by higher depreciation and amortization primarily due to the Amerasia-class ethanol production and by the results on the Amerasia's trading activities. Postpartum activities reduced earnings by \$41 million compared with a net positive effect of \$10 million in 1995. Average crude oil and natural gas liquids prices received were \$21.20 per barrel in 1996, compared with \$21.94 per barrel in 1995. Average natural gas prices received were \$7.00 in the fourth quarter of 1996 and \$4.64 per thousand cubic feet for the full year 1996, compared with \$4.22 in 1995.

In the downstream, continuing restructuring charges exposed inefficiencies in the refinery as increased feedstocks could not be processed on immediate refinery units. The oil price was in decline and Atlantic area, especially the crude, was available in quantities exceeding demand. These market conditions have prompted the conversion of capacity. However, a company-wide restructuring program, completed with \$90 million in 1995, some market windfalls were \$13 million in 1996, compared with \$61 million in 1995.

Refining capacity productivity rose from 1995 to 1996 and employee productivity rose from 1.4 per cent to 1.7 per cent or a five per cent improvement. The 1996 productivity was 1.4 per cent in 1995. There was two times cash flow, and cash per barrel productivity was 3.4 per cent.

Major events

Petro-Canada reorganized its share capital in early 1996 to increase the opportunity for non-residents of Canada to invest in the Company. The Company issued a new class of shares,

variable voting common shares, with policies that are value-oriented and ownership records 25 per cent of the public float, to increase participation in the future and provide a more diversified base of investors. The shares are not redeemable and carry a 25 per cent vote per share. At the present with rights are convertible voting shares. The shares have a weighted average price of \$10.00. The shares are not redeemable and carry a 25 per cent vote per share. At the present with rights are convertible voting shares. The shares have a weighted average price of \$10.00. The shares are not redeemable and carry a 25 per cent vote per share.

The company issued 18,475,000 of 1 per cent, 20-year debentures and 18,475,000 of 5 per cent, 20-year debentures. The company also issued 18,475,000 of 5 per cent, 20-year debentures. The company also issued 18,475,000 of 5 per cent, 20-year debentures. The company also issued 18,475,000 of 5 per cent, 20-year debentures.

from \$870 million, largely as the result of the Amerada Hess Canada Ltd. acquisition and Petro-Canada's continuing investment in natural gas growth.

The short-term debt associated with Hibernia was repaid in full at year end 1996. Petro-Canada does not intend to issue further Hibernia-related debt.

In July, 1996, Moody's Investors Service and Standard & Poor's upgraded Petro-Canada's debt ratings, citing a stronger outlook for cash flow and earnings in the medium term as a result of the Company's recent strategic accomplishments.

Moody's increased its rating on Petro-Canada's senior unsecured notes and debentures from Baa1 to A3 and Standard & Poor's upgraded its rating from BBB to BBB plus. Subsequent to year end, Dominion Bond Rating Service upgraded its rating of these same instruments from A (low) to A.

1997 and Beyond

Petro-Canada expects commodity prices to moderate somewhat in 1997. The Company plans for a West Texas Intermediate crude price of U.S. \$21 for the year, and natural gas prices of Cdn. \$1.47 per thousand cubic feet Alberta plant gate. Petro-Canada has specific financial targets for the future, including return on capital employed of 10 per cent, cash flow return on capital employed of 20 per cent, maximum debt to debt plus equity of 30 per cent, and maximum debt to cash flow of two times. Return on capital employed and cash flow return on capital employed will be constrained until capital-intensive projects like Hibernia and Terra Nova reach full production between 1998 and 2000.

The Company expects financial performance to improve in 1997 for several reasons, including a full year of production from the former Amerada Hess Canada Ltd. assets, reduced hedging activity and international oil production growth. The Company will benefit in 1997 from a full year of Norwegian and Algerian production, and a recovery in refining and marketing driven by lower costs, better margins, and a full year of production from the expanded lubricants plant.

In 1997, Petro-Canada plans to invest \$950 million in property, plant and equipment and exploration including a \$100 million non-cash, capitalized lease related to a Hibernia tanker. The Upstream sector will account for \$700 million of total capital expenditures, including approximately \$290 million for exploration and development of conventional properties in Western Canada. Expenditures related to development

and exploration offshore Newfoundland, including Hibernia and Terra Nova, will total approximately \$190 million. The Company will invest over \$60 million outside Canada, largely to complete the development of the Njord field in Norway, and for further exploration and development on the two million acre Tinrhert Block in Algeria. In the Downstream, investments will total approximately \$215 million, primarily to accelerate the enhancement of retail marketing operations and to improve the profitability of refineries and of the recently expanded lubricants business. In addition, the Company will direct approximately \$35 million to investments in business systems and process re-engineering programs. Petro-Canada expects to fund these investments from cash flow. Petro-Canada has a long-term debt issue maturing in June, 1997 that it intends to repay.

After a thorough assessment of its assets following the Amerada Hess Canada Ltd. acquisition, the Company placed on the market non-core properties representing daily production of about 10 000 barrels of oil equivalent, which is expected to sell during the first quarter of 1997. Petro-Canada intends to reinvest the proceeds of this sale in Western Canadian upstream assets when attractive opportunities become available.

Since implementing its current exposure management strategy several years ago, Petro-Canada's financial strength and cash flow have improved and the Company now is in the position to absorb more risk. Consequently, Petro-Canada likely will engage in less hedging and other risk management activity in the future.

Petro-Canada's dividend policy is relatively conservative, reflecting the wealth of investment opportunities available to the Company. The Board of Directors reviews this policy on a regular basis.

Corporate Responsibility



Beyond simply practicing responsible corporate citizenship, Petro-Canada cares about the quality of Canadian life, respects community values and actively supports the communities in which it works.

Environmental Protection

Environmental protection is a fundamental Petro-Canada value. The Corporation recognizes that every employee has a vital role to play in protecting the environment. Senior management leads the implementation of this policy. Petro-Canada's commitment is incorporated into business activities through the following guiding principles. Petro-Canada will:

- ensure our operations comply with government legislation, corporate policy and applicable industry standards concerning the protection of the environment and the public
- determine, evaluate and mitigate the environmental impacts of our business during project planning, implementation, operation and decommissioning
- ensure that appropriate waste and emissions management programs are developed and implemented
- respond to emergencies in a prompt and effective manner
- ensure that all employees and others engaged on our behalf are aware of the need, informed of the requirements and trained to protect the environment

- use energy and other resources efficiently in our operations
- support research on the environmental effects of our products, processes and waste materials
- deal openly and fairly with members of the public regarding our activities

Petro-Canada expects its suppliers, partners and business associates to have compatible environmental procedures and values.

Environment, Health and Safety status reports are presented regularly to the Board of Directors.

Community Investment

Petro-Canada invests in a variety of charitable and non-profit initiatives in education, health and social services, arts and culture, and the environment, both through funding and hands-on involvement. In 1996, the Company invested about \$3 million in charitable endeavours throughout Canada.

Our Community Investment Program is national in scope, with particular emphasis on locations where we have a substantial presence. We endeavour to strike a balance between activities that relate to our industry's disciplines and initiatives that address broader community needs.

We are striving to support the development of Canada's brightest young minds through special initiatives like our Graduate Research Program and our Petro-Canada Young Innovator Awards.

Many Petro-Canada employees and retirees provide volunteer assistance in communities across Canada. Our Volunteer Grant Program recognizes these efforts by providing funding support to the charities and non-profit groups with which they volunteer.

Management's Responsibility for the Financial Statements

The preparation and presentation of the Company's consolidated financial statements is the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include estimates which are based on management's best judgements. Information contained elsewhere in the Annual Report is consistent, where applicable, with that contained in the financial statements.

Management is also responsible for installing and maintaining a system of internal controls to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of financial statements.

Arthur Andersen & Co., a firm of chartered accountants, were appointed by the shareholders as external auditors to conduct an independent examination and express their opinion on the consolidated financial statements. The Auditors' Report outlines the auditors' opinion and the scope of their examination. The Company has also contracted Arthur Andersen & Co. to

provide other audit services, including the review of the system of internal controls formerly conducted by the internal auditor.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises these responsibilities with the assistance of the Audit Committee of the Board.



President and Chief Executive Officer



Executive Vice-President
(chief financial officer)

January 29, 1997

Audit Committee of the Board of Directors

The Board of Directors exercises its responsibility for ensuring that management fulfills its financial reporting and internal control duties with the assistance of the Audit Committee of the Board.

The Committee, which is composed of not less than three (currently five) directors who are not employees of the Company, reviews the annual consolidated financial statements prior to their approval by the Board. The Committee also reviews financial information contained in prospectuses and in reports filed with regulatory authorities, as required, as well as quarterly financial information.

With respect to the external auditors, the Committee reviews the terms of engagement, the annual audit plan, the Auditors' Report and the results of the audit. The Committee also recommends to the Board a firm of external auditors to be appointed by the shareholders.

With respect to Arthur Andersen & Co.'s engagement as contract auditor to review the system of internal controls, the Committee receives periodic reports, reviews significant findings and recommendations and approves their engagement contract and annual review plan.

Senior management, the external auditor and the contract auditor attend all Audit Committee meetings and each is provided with the opportunity to meet privately with the Committee.



Chairman of the Audit Committee

January 29, 1997

Auditors' Report

To the Shareholders of Petro-Canada:

We have audited the consolidated balance sheet of Petro-Canada as at December 31, 1996 and 1995 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1996 in accordance with generally accepted accounting principles.



Chartered Accountants
Calgary, Alberta

January 29, 1997

Petro-Canada

Consolidated Statement of Earnings

(stated in millions of Canadian dollars)

For the years ended December 31,	1996	1995	1994
Revenue			
Operating	\$5 514	\$4 739	\$4 641
Investment and other income	93	81	117
	5 607	4 820	4 758
Expenses			
Crude oil and product purchases	2 988	2 405	2 329
Producing, refining and marketing	1 257	1 198	1 233
General and administrative (Note 4)	187	308	209
Exploration	60	43	34
Depreciation, depletion and amortization	440	338	347
Taxes other than income taxes	70	68	71
Interest on long-term debt	101	81	88
Other interest	8	9	11
	5 111	4 450	4 322
Unusual Item (Note 5)	—	—	51
Earnings before Income Taxes	496	370	487
Provision for Income Taxes (Note 6)			
Current	160	120	126
Deferred	89	54	99
	249	174	225
Net Earnings	\$ 247	\$ 196	\$ 262
Net Earnings per Share (dollars) (Note 7)	\$ 0.94	\$ 0.79	\$ 1.06

Consolidated Statement of Retained Earnings

(stated in millions of Canadian dollars)

For the years ended December 31,	1996	1995	1994
Retained Earnings (Deficit) at Beginning of Year	\$ (282)	\$ (429)	\$ (650)
Net earnings	247	196	262
Dividends on common and variable voting shares	(53)	(49)	(41)
Retained Earnings (Deficit) at End of Year	\$ (88)	\$ (282)	\$ (429)

Petro-Canada

Consolidated Statement of Changes in Financial Position

(stated in millions of Canadian dollars)

For the years ended December 31,	1996	1995	1994
Operating Activities			
Net earnings	\$ 247	\$ 196	\$ 262
Items not affecting cash flow (Note 8)	556	466	405
Exploration expenses (Note 12)	60	43	34
Cash flow	863	705	701
Decrease (increase) in operating working capital and other (Note 9)	59	(65)	(241)
Cash flow from operating activities	922	640	460
Investing Activities			
Acquisition of Amerada Hess Canada Ltd. (Note 10)	(735)	—	—
Expenditures on property, plant and equipment and exploration	(959)	(853)	(702)
Proceeds from sale of property, plant and equipment	92	48	250
(Increase) decrease in deferred charges and other assets, net	(9)	14	(2)
	(1 611)	(791)	(454)
Financing Activities and Dividends			
Dividends on common and variable voting shares	(53)	(49)	(41)
(Decrease) increase in notes payable – Hibernia	(50)	150	—
Reduction of long-term debt	(2)	(2)	(13)
Proceeds from issue of long-term debt	377	—	12
Proceeds from issue of common and variable voting shares	406	—	2
	678	99	(40)
Decrease in Cash and Short-Term Investments	(11)	(52)	(34)
Cash and Short-Term Investments at Beginning of Year	43	95	129
Cash and Short-Term Investments at End of Year	\$ 32	\$ 43	\$ 95

Petro-Canada

Consolidated Balance Sheet

(stated in millions of Canadian dollars)

As at December 31

ASSETS

Current Assets

Cash and short-term investments	\$ 32	\$ 43
Accounts receivable	943	796
Inventories (Note 11)	472	413
Prepaid expenses	28	24
Income taxes recoverable	-	36

Property, Plant and Equipment, net (Note 12)

Deferred Charges and Other Assets (Note 13)

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

Accounts payable and accrued liabilities	\$1 196	\$1 058
Income taxes payable	58	-
Current portion of long-term debt	109	-
Notes payable - Hibernia	-	50

Notes Payable - Hibernia (Note 14)

Long-Term Debt (Note 15)

Deferred Credits and Other Liabilities (Note 16)

Deferred Income Taxes

Commitments and Contingent Liabilities (Note 22)

Shareholders' Equity (Note 17)

	\$7 769	\$6 488
--	---------	---------

Approved on behalf of the Board



Director



Director

1. Summary of Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of Petro-Canada and of all subsidiary companies ("the Company") and comply in all material respects with Canadian generally accepted accounting principles.

(b) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of crude oil and products is determined primarily on a "last-in, first-out" basis.

(c) Investments

Investments in companies over which the Company has significant influence, other than joint ventures, are accounted for on the equity method. Interests in joint ventures are proportionately consolidated while other long-term investments are accounted for on the cost method.

(d) Property, Plant and Equipment

Investments in exploration and development activities are accounted for on the successful efforts method. Under this method the acquisition cost of unproved acreage is capitalized. Costs of exploratory wells are initially capitalized pending determination of proved reserves and costs of wells which are assigned proved reserves remain capitalized while costs of unsuccessful wells are charged to earnings. All other exploration costs are charged to earnings as incurred. Development costs, including the cost of all wells, are capitalized.

Substantially all of the Company's exploration and development activities are conducted jointly with others. Only the Company's proportionate interest in such activities is reflected in the financial statements.

The interest cost of debt attributable to the construction of major new facilities is capitalized during the construction period.

(e) Depreciation, Depletion and Amortization

Depreciation and depletion of capitalized costs of oil and gas producing properties is calculated using the unit of production method.

Depreciation of other plant and equipment is provided on either the unit of production method or the straight line method, based on the estimated service lives of the related assets, as appropriate.

The carrying amounts of unproved properties are evaluated periodically for impairment with any such impairment being charged to earnings.

(f) Future Removal and Site Restoration Costs

Estimated future removal and site restoration costs which are probable and can be reasonably determined are provided for on either the unit of production method or the straight line method, based on the estimated service lives of the related assets, as appropriate.

(g) Translation of Foreign Currency

Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Other assets and related depreciation, depletion and amortization, other liabilities, revenue and other expense items are translated at rates of exchange in effect at the respective transaction dates. The resulting exchange gains or losses are included in earnings, except for unrealized exchange gains or losses arising on translation of long-term debt, which are deferred and amortized over the remaining term of the debt.

Foreign operations are integrated with the Company's other activities and are translated in the manner described above.

Notes to Consolidated Financial Statements

(tabular amounts stated in millions of Canadian dollars)

1. Summary of Significant Accounting Policies (continued)**(h) Hedging Activity**

The Company uses derivative instruments to reduce its exposure to foreign exchange, interest rate and commodity price fluctuations. Gains and losses on these contracts which constitute effective hedges are deferred and recognized as a component of the related transaction.

(i) Post Retirement Benefits

In addition to its pension plans the Company provides for other post retirement benefits, including health, dental and life insurance, to its qualifying retirees. The actuarially determined cost of these benefits are accrued over the estimated service lives of employees.

2. Segmented Information

The Company operates in two business segments:

Upstream, comprising: exploration, development, production, transportation and marketing activities for crude oil, natural gas, propane, field liquids, sulphur and oil sands; and extraction of liquids from natural gas.

Downstream, comprising: purchase and sale of crude oil; refining crude oil into oil products; and distribution and marketing of these and other purchased products.

Financial information by business segment is presented in the following table as though each segment were a separate business entity. Inter-segment transfers of products, which are accounted for at market value, are eliminated on consolidation. Shared Services includes investment income, interest expense and general corporate revenues and expenditures. Shared Services assets are principally cash and short-term investments, buildings and other general corporate assets.

	Upstream			Downstream		
	1996	1995	1994	1996	1995	1994
Revenue						
Sales to customers and other revenues	\$1 035	\$ 790	\$ 921	\$4 551	\$4 029	\$3 827
Inter-segment sales	667	553	499	8	13	24
Segment Revenue	\$1 702	\$1 343	\$1 420	\$4 559	\$4 042	\$3 851
Earnings						
Operating earnings before the following:	\$ 789	\$ 565	\$ 577	\$ 340	\$ 401	\$ 359
Depreciation, depletion and amortization	(315)	(217)	(220)	(120)	(118)	(124)
Exploration expense	(60)	(43)	(34)	—	—	—
Unusual item	—	—	51	—	—	—
Provision for income taxes	(218)	(146)	(181)	(93)	(122)	(97)
Net Earnings	\$ 196	\$ 159	\$ 193	\$ 127	\$ 161	\$ 138
Capital and Exploration Expenditures						
Property, plant and equipment						
and exploration expenditures	\$ 649	\$ 587	\$ 527	\$ 282	\$ 254	\$ 169
Deferred charges and other assets	(2)	(18)	(5)	2	(2)	(1)
Acquisition of Amerada Hess Canada Ltd.	735	—	—	—	—	—
	\$1 382	\$ 569	\$ 522	\$ 284	\$ 252	\$ 168
Total Assets	\$4 432	\$3 263	\$2 912	\$2 940	\$2 743	\$2 672
Capital Employed	\$4 033	\$2 919	\$2 573	\$2 161	\$2 061	\$2 029

Petro-Canada

Notes to Consolidated Financial Statements

(tabular amounts stated in millions of Canadian dollars)

2. Segmented Information (continued)

	Shared Services			Consolidated		
	1996	1995	1994	1996	1995	1994
Revenue						
Sales to customers and other revenues	\$ 21	\$ 1	\$ 10	\$5 607	\$4 820	\$4 758
Inter-segment sales	—	—	—			
Segment Revenue	\$ 21	\$ 1	\$ 10			
Earnings						
Operating earnings (loss) before the following:	\$ (24)	\$ (125)	\$ (20)	\$1 105	\$ 841	\$ 916
Depreciation, depletion and amortization	(5)	(3)	(3)	(440)	(338)	(347)
Exploration expense	—	—	—	(60)	(43)	(34)
Interest	(109)	(90)	(99)	(109)	(90)	(99)
Unusual item	—	—	—	—	—	51
(Provision for) recovery of income taxes	62	94	53	(249)	(174)	(225)
Net Earnings (Loss)	\$ (76)	\$ (124)	\$ (69)	\$ 247	\$ 196	\$ 262
Capital and Exploration Expenditures						
Property, plant and equipment						
and exploration expenditures	\$ 28	\$ 12	\$ 6	\$ 959	\$ 853	\$ 702
Deferred charges and other assets	9	6	8	9	(14)	2
Acquisition of Amerada Hess Canada Ltd.	—	—	—	735	—	—
	\$ 37	\$ 18	\$ 14	\$1 703	\$ 839	\$ 704
Total Assets	\$ 397	\$ 482	\$ 492	\$7 769	\$6 488	\$6 076
Capital Employed	\$ 214	\$ 333	\$ 316	\$6 408	\$5 313	\$4 918

3. Taxes and Crown Royalties

In addition to the provision for income taxes and other taxes included in the consolidated statement of earnings, the following items have been collected or produced on behalf of governments and have been paid or are payable by the Company:

	1996	1995	1994
Provincial fuel and sales taxes	\$1 268	\$1 196	\$1 135
Federal excise taxes	786	766	676
Goods and Services Tax collected	585	514	517
Crown royalties, paid and paid in kind	225	129	124
	\$2 864	\$2 605	\$2 452

4. General and Administrative Expenses

General and administrative expenses for 1995 include a provision of \$87 million for the cost of an organizational restructuring program resulting in a workforce reduction and related changes in office space requirements.

5. Unusual Item

During 1994 the Company disposed of TroCana Resources, a business unit formed to hold certain non-core oil and gas properties, resulting in a gain of \$51 million.

Notes to Consolidated Financial Statements*(tabular amounts stated in millions of Canadian dollars)***6. Income Taxes**

The computation of the provision for income taxes, which requires adjustment to earnings before income taxes for non-taxable and non-allowable items, is as follows:

	1996	1995	1994
Earnings before income taxes	\$ 496	\$ 370	\$ 487
Add (deduct):			
Non-deductible royalties and other payments to provincial governments, net	180	105	120
Resource allowance	(162)	(93)	(115)
Non-deductible depreciation, depletion and amortization	118	49	78
Equity in earnings of affiliates	(8)	(11)	(8)
Other	—	7	(9)
Earnings as adjusted before income taxes	\$ 624	\$ 427	\$ 553
Canadian Federal income tax rate	38.0%	38.0%	38.0%
Canadian Federal income tax on earnings as adjusted	\$ 237	\$ 162	\$ 210
Large Corporations Tax	12	11	9
Provincial and other income taxes, net of federal abatement	37	22	26
Rebates and other	(37)	(21)	(20)
Provision for income taxes	\$ 249	\$ 174	\$ 225
Effective income tax rate on earnings before income taxes	50.2%	47.0%	46.2%

Complex income tax issues which involve interpretations of continually changing regulations are encountered in computing the provision for income taxes. Management believes that all such outstanding issues have been adequately provided for.

7. Net Earnings per Share

The basic net earnings per share, based on the weighted average number of common and variable voting shares outstanding in 1996 of 262.3 million (1995 – 246.7 million; 1994 – 246.7 million), for the year ended December 31, 1996 was \$0.94 (1995 – \$0.79; 1994 – \$1.06). Fully diluted earnings per share, calculated on the assumption that all outstanding stock options were exercised, do not differ from the basic net earnings per share.

8. Items not Affecting Cash Flow

	1996	1995	1994
Depreciation, depletion and amortization	\$ 440	\$ 338	\$ 347
Deferred income taxes	89	54	99
Provision for future removal and site restoration costs	23	22	24
Amortization of unrealized foreign exchange losses	14	13	20
Gain on sale of assets	(21)	(13)	(40)
Organizational restructuring (Note 4) and other	11	52	6
Unusual item (Note 5)	—	—	(51)
	\$ 556	\$ 466	\$ 405

Petro-Canada**Notes to Consolidated Financial Statements***(tabular amounts stated in millions of Canadian dollars)***9. Decrease (Increase) in Operating Working Capital and Other**

	1996	1995	1994
Accounts receivable	\$ (46)	\$ (31)	\$ (220)
Income taxes recoverable	86	(75)	(11)
Inventories	(58)	23	8
Prepaid expenses	(3)	8	(2)
Accounts payable and accrued liabilities	17	57	75
Income taxes payable	49	–	(53)
Current portion of long-term liabilities and other	14	(47)	(38)
	\$ 59	\$ (65)	\$ (241)

Operating working capital is comprised of working capital other than cash and short-term investments, notes payable – Hibernia and current portion of long-term debt.

10. Acquisition of Amerada Hess Canada Ltd.

Effective April 3, 1996 the Company acquired all of the issued shares of Amerada Hess Canada Ltd. The acquisition has been accounted for by the purchase method of accounting as follows:

Book value of assets acquired, excluding cash	\$ 563
Book value of assumed liabilities	(229)
	<u>334</u>
Excess of attributed value over book value of acquired assets	
allocated to property, plant and equipment	401
	<u>\$ 735</u>

Funds for the acquisition were provided by the issuance of common and variable voting shares and long-term debt.

11. Inventories

	1996	1995
Crude oil, refined products and merchandise	\$ 408	\$ 349
Materials and supplies	64	64
	\$ 472	\$ 413

Petro-Canada
Notes to Consolidated Financial Statements
(tabular amounts stated in millions of Canadian dollars)
12. Property, Plant and Equipment

	1996			1995			Capital Expenditures	
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Cost	Accumulated Depreciation, Depletion and Amortization	Net	1996	1995
Upstream								
Oil and gas								
Canada non-frontier	\$ 4 120	\$1 975	\$2 145	\$3 073	\$1 789	\$1 284	\$ 301	\$ 225
Hibernia Project	822	–	822	852	–	852	142	239
Other frontier	53	–	53	74	–	74	7	5
Foreign	234	11	223	29	–	29	79	21
Oil sands								
Syncrude Project	591	224	367	566	212	354	25	20
Other	216	216	–	215	215	–	1	–
Natural gas liquids	560	321	239	532	291	241	34	34
Other	40	35	5	76	68	8	–	–
	6 636	2 782	3 854	5 417	2 575	2 842	589	544
Downstream								
Refining	2 476	1 407	1 069	2 311	1 340	971	165	153
Marketing and other	1 358	503	855	1 277	471	806	117	101
	3 834	1 910	1 924	3 588	1 811	1 777	282	254
Other Property, Plant and Equipment								
	566	330	236	499	289	210	28	12
	<u>\$11 036</u>	<u>\$5 022</u>	<u>\$6 014</u>	<u>\$9 504</u>	<u>\$4 675</u>	<u>\$4 829</u>	<u>\$ 899</u>	<u>\$ 810</u>

Interest capitalized during 1996 amounted to \$32 million (1995 – \$28 million; 1994 – \$17 million).

Costs relating to the Hibernia Project and Other frontier are not currently being amortized.

Capital expenditures and exploration expenses charged to earnings are classified as investing activities in the consolidated statement of changes in financial position.

13. Deferred Charges and Other Assets

	1996	1995
Translation adjustment on long-term debt	\$ 107	\$ 117
Deferred pension funding	77	77
Investments	39	40
Goodwill	25	32
Other	32	27
Investment tax credits	–	4
	<u>\$ 280</u>	<u>\$ 297</u>

Petro-Canada

Notes to Consolidated Financial Statements

(tabular amounts stated in millions of Canadian dollars)

14. Notes Payable – Hibernia

Notes payable – Hibernia comprise \$150 million 6.125% bonds issued in 1993 and \$100 million 7.74% bonds issued in 1995, both of which mature in 1998. These bonds relate to the Hibernia Project and are guaranteed by the Government of Canada (Note 22(a)); recourse of the holders is limited to the guarantee.

15. Long-Term Debt

	Maturity	1996	1995
8.60% unsecured notes (U.S. \$300 million)	2001	\$ 411	\$ 410
9.25% unsecured debentures (U.S. \$300 million)	2021	411	410
7.875% unsecured debentures (U.S. \$275 million)	2026	377	–
9.375% unsecured notes ¹	1997	109	109
Mortgage bonds ²	2006	78	80
Notes payable ²	1999	62	62
Other		11	10
		1 459	1 081
Less current portion		109	–
		\$1 350	\$1 081

¹ Canadian dollar notes and the related interest payments have been converted into U.S. \$80 million (1995 – U.S. \$80 million) through a currency swap arrangement, resulting in an effective interest rate of 7.39% (Note 21).

² The notes payable and mortgage bonds relate to the Company's 50% ownership of Petro-Canada Centre, an office complex in Calgary, and consists of two revolving term credit facilities. Through the use of derivative instruments the interest rate on a portion of this debt has been set for 1997 (Note 21). The total Petro-Canada Centre debt of \$281 million has a joint and several guarantee by the co-owners.

The minimum repayments of long-term debt in the next five years are \$109 million in 1997, \$250 million of Notes payable – Hibernia in 1998 (Note 14), \$62 million notes payable in 1999 and \$411 million unsecured notes in 2001.

16. Deferred Credits and Other Liabilities

	1996	1995
Future removal and site restoration costs	\$ 144	\$ 150
Post retirement benefits	107	103
Long-term liabilities	70	83
	\$ 321	\$ 336

Notes to Consolidated Financial Statements*(tabular amounts stated in millions of Canadian dollars)***17. Shareholders' Equity**

	1996	1995
Common and variable voting shares	\$1 208	\$ 802
Contributed surplus	2 572	2 572
Retained earnings (deficit)	(88)	(282)
	<u>\$3 692</u>	<u>\$3 092</u>

The authorized share capital of the Company is comprised of an unlimited number of:

- (a) Preferred shares issuable in series designated as Senior Preferred Shares
- (b) Preferred shares issuable in series designated as Junior Preferred Shares
- (c) Common and variable voting shares

In 1996, the common share capital was reorganized into two classes of common equity: common shares which may be held only by residents of Canada and variable voting shares which may be held only by non-residents of Canada. The common shares and the variable voting shares differ only in their voting entitlements. The common shares carry one vote per share. The variable voting shares carry between one vote per share to 1/3 of one vote per share, depending on the number of variable voting shares outstanding compared to the number of voting shares outstanding. As the number of variable voting shares exceeds 25% of the public float of voting shares, the vote per variable voting share decreases so that the variable voting shares as a class do not carry more than 25% of the aggregate outstanding votes attached to all voting shares in the public float.

Changes in common and variable voting shares were as follows:

	1996		1995	
	Shares	Amount	Shares	Amount
Balance at beginning of year	246 719 043	\$ 802	246 667 063	\$ 802
Issued for cash	23 732 385	403	—	—
Issued under stock option plan	276 959	3	51 980	—
Balance at end of year	<u>270 728 387</u>	<u>\$1 208</u>	<u>246 719 043</u>	<u>\$ 802</u>

The Company has granted options to purchase shares under the terms of the Executive Stock Option Plan. Stock options outstanding as at December 31, 1996 were as follows:

Expiry Date	Option Price	Number of Shares
July 3, 2001	\$13.000	765 930
July 29, 2002	8.125	362 700
December 31, 2002	15.750	482 400
March 18, 2003	7.875	276 800
March 2, 2004	13.625	185 060
March 1, 2005	11.500	217 080
January 31, 2006	16.250	741 500
January 31, 2006	17.700	28 530

Notes to Consolidated Financial Statements*(tabular amounts stated in millions of Canadian dollars)***18. Pension Plans**

The Company maintains pension plans with defined benefit and defined contribution provisions. The defined benefit provisions are generally based upon years of service and average salary during the final years of employment. Certain defined benefit options require employee contributions and the balance of the funding for the registered plans is provided by the Company, based upon the advice of an independent actuary. Under the defined contribution provision, which was introduced during 1996, the Company's annual contribution is 5% of each participating employee's pensionable earnings. The pension assets are held primarily in equity, fixed income and other marketable securities.

	1996	1995	1994
Pension Expense			
Current service cost	\$ 23	\$ 24	\$ 23
Interest cost	66	64	59
Actual return on plan assets	(109)	(109)	3
Net amortization and deferral	39	44	(64)
	\$ 19	\$ 23	\$ 21
Pension Funding	\$ 23	\$ 35	\$ 28

	1996	1995
Financial Status of Defined Benefit Pension Plans		
Actuarial value of assets	\$ 803	\$ 794
Pension obligation	754	771
Net pension asset	\$ 49	\$ 23

The net pension asset is amortized to earnings over the expected average remaining service life of the employees covered by the plans, which is currently 10 years.

As at December 31, 1996 \$741 million (1995 – \$754 million) of the pension obligation was vested.

	1996	1995	1994
Defined Benefit Plan Assumptions			
Discount rate	9.0%	9.0%	9.0%
Long-term rate of return on plan assets	9.0%	9.0%	9.0%
Rate of compensation increase, excluding merit increases	5.0% ¹	4.5%	4.0%

¹ Increasing to 5.5% in 1997 and thereafter.

19. Related Party Transactions

Transactions with the Government of Canada (which holds 18% of the Company's issued shares at December 31, 1996), its agencies and other related parties, are in the normal course of business and are therefore on the same terms as those accorded to non-related parties.

As at December 31, 1996 officers and employees owed the Company \$3 million (1995 – \$4 million) in relation to stock purchase plans.

Notes to Consolidated Financial Statements

(tabular amounts stated in millions of Canadian dollars)

20. Fair Value of Financial Instruments

As at December 31, 1996 the fair value and the related method of determination along with the carrying value of the Company's financial instruments were as follows:

Cash and Short-Term Investments

The fair value of cash and short-term investments approximates the carrying amount of these instruments due to their short maturity.

Long-Term Debt and Notes Payable – Hibernia

The fair value of long-term debt and notes payable – Hibernia is based on publicly quoted market values.

Derivative Instruments

The fair value of derivative instruments is based on quotes provided by brokers.

	Carrying Amount	Fair Value
	\$ 32	\$ 32
Cash and short-term investments		
Long-term debt and notes payable – Hibernia	(1 709)¹	(1 865)
Derivative instruments	(8)	(3)

¹ Excludes translation adjustment of \$107 million (Note 13).

21. Derivative Instruments**Crude Oil and Products**

The Company has reduced its exposure to refining cracking margin fluctuations in the downstream business segment by selling margin contracts and by buying crude oil contracts and selling heating oil contracts. The downstream business segment has also bought forward crude oil contracts to reduce exposure to margin fluctuations on fixed price product sales and to reduce exposure on short-term price fluctuations on the purchase of foreign crude oil.

Natural Gas

The Company has sold forward 9 630 million cubic feet of natural gas production at an average price of U.S. \$1.25 per thousand cubic feet in order to reduce the Company's exposure to United States dollar based natural gas price fluctuations. The Company has also bought forward and sold forward natural gas in order to convert a portion of its 1997 natural gas purchases and sales contracts from fixed to variable price.

Currency

The Company has converted the principal and related interest payments of the Canadian dollar notes into United States dollars through currency swaps (Note 15) in order to reduce its exposure to exchange rate movements between the Canadian and United States dollars. The currency contracts outstanding at December 31, 1996 included contracts for U.S. \$100 million notional principal related to estimated 1997 net currency exposure.

Interest Rates

Petro-Canada Centre utilizes revolving term credit facilities (Note 15). In order to reduce the impact of interest rate fluctuations, interest rate swap agreements have been used to convert the floating rate debt into fixed rate debt for approximately 75% of the Company's 1997 exposure at an effective semi-annual rate of 7.39% to July, 1997 and for 50% of the July, 1997 to December, 1997 exposure at 7.28%.

Notes to Consolidated Financial Statements

(tabular amounts stated in millions of Canadian dollars)

21. Derivative Instruments (continued)

The Company's outstanding contracts for derivative instruments and related unrealized gains (losses) were as follows:

	Quantity	Average Price ¹	Notional Principal	Unrealized Gains (Losses)	Maturity
	(Canadian dollars)				
December 31, 1996					
Crude Oil and Products (millions of barrels)					
Crude oil – downstream	0.7	\$32.25	\$ 23	\$ –	1997
Product sales	0.7	28.25	20	3	1997
Heating oil margin – sold	2.8	5.00	14	–	1997
			57	3	
Natural Gas (millions of cubic feet)					
Natural gas – bought	8 882	1.47	13	6	1997
Natural gas – sold	12 853	1.75	22	(2)	1997
			35	4	
Currency		1.3261	137	(3)	1997
Interest Rates			88	(2)	1997
			\$ 317	\$ 2	
December 31, 1995					
Crude Oil and Products (millions of barrels)					
Crude oil – upstream	8.0	\$24.29	\$ 194	\$ (4)	1996
Crude oil – downstream	1.9	24.19	46	1	1996
	0.3	25.73	8	–	1997
Heating oil	0.8	29.67	22	–	1996
Heating oil margin	2.5	5.20	13	(1)	1996
			283	(4)	
Natural Gas (millions of cubic feet)					
Natural gas – bought	6 100	1.74	11	(1)	1996
Natural gas – sold	5 480	2.04	11	–	1996
			22	(1)	
Currency		1.26	74	–	1997
Interest Rates			140	(1)	1996
			35	–	1997
			175	(1)	
			\$ 554	\$ (6)	

¹ Per barrel or per thousand cubic feet, as applicable.

Derivative instruments involve a degree of credit risk which the Company controls through the establishment of credit policies and limits and the selection of financially sound counterparties. Market risk relating to changes in value or settlement cost of the Company's derivative instruments is essentially offset by gains or losses on the hedged positions.

Notes to Consolidated Financial Statements

(tabular amounts stated in millions of Canadian dollars)

22. Commitments and Contingent Liabilities

(a) The Company is a participant in the project to develop the Hibernia offshore oil field. Costs to production start-up are estimated at \$5.9 billion; the Company's 20% share after Government contributions is expected to be approximately \$920 million (before related investment tax credits), of which \$810 million had been expended to December 31, 1996. The Company's investment in the Project will be financed, in part, by Government guaranteed loans to a maximum of \$330 million; the Government's recourse to the Company is limited, subject to the Company's compliance with certain covenants, to the Hibernia Project (Note 14). The Company's share of development costs subsequent to production start-up is estimated at \$350 million, which is expected to be financed by cash flow from the Project.

(b) The Company is a party to an agreement for the time charter and operation of a vessel for the transportation of crude oil to be produced from the Hibernia Project. The Company's share of annual fixed obligations is approximately \$14 million. Payments are expected to commence in November, 1997 for an initial term of ten years extendable at the Company's option for an additional 15 years.

(c) The Company has leased other property and equipment under various long-term operating leases for periods up to 2014. The minimum annual rentals for non-cancellable operating leases are estimated at \$74 million in 1997, \$54 million in 1998, \$46 million in 1999, \$36 million in 2000, \$29 million in 2001 and \$14 million per year thereafter until 2014.

(d) The Company is involved in litigation and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Company.

23. Comparative Figures

Certain reclassifications have been made to the 1995 and 1994 comparative figures to conform with the current year's presentation.

24. Generally Accepted Accounting Principles ("GAAP") in the United States

The Company's consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada, which differ in some respects from those applicable in the United States. The following are the significant differences in accounting principles as they pertain to the accompanying consolidated financial statements.

(a) The Company follows the deferral method of accounting for income taxes. Under United States GAAP the use of the liability method would be required.

(b) Effective January 1, 1994 the Company retroactively changed its method of accounting for post retirement benefits. Under United States GAAP the Company would have elected to have the cumulative effect of this change charged to earnings in 1994.

(c) The Company has deferred unrealized gains and losses on translation of long-term debt payable in foreign currencies for amortization over the remaining term of the debt. Under United States GAAP gains or losses on the translation of long-term debt payable in foreign currencies would be credited or charged to earnings with no deferral.

(d) United States GAAP requires that interest be capitalized as part of the cost of certain assets while they are being prepared for their intended use. The Company does not capitalize interest on all such assets.

(e) The Company has transferred amounts from contributed surplus to the accumulated deficit. Under United States GAAP these transfers would not have occurred.

(f) The Company uses the proportionate consolidation method of accounting for its investments in joint ventures. Under United States GAAP these investments would be accounted for on the equity method. This difference in accounting does not affect net earnings.

Notes to Consolidated Financial Statements*(tabular amounts stated in millions of Canadian dollars)***24. Generally Accepted Accounting Principles ("GAAP") in the United States** *(continued)*

The application of United States GAAP would have the following effects on earnings as reported:

	1996	1995	1994
Net earnings as reported in the consolidated statement of earnings	\$ 247	\$ 196	\$ 262
Adjustments, net of applicable income taxes			
Accounting for income taxes	(33)	20	12
Foreign currency translation	7	23	(28)
Capitalization of interest and related amortization	17	19	21
Other	(3)	(1)	1
Earnings as adjusted, before cumulative effect of accounting change	235	257	268
Cumulative effect of change in accounting for post retirement benefits	—	—	(52)
Net earnings, as adjusted	\$ 235	\$ 257	\$ 216
Net earnings per share, as adjusted			
Before cumulative effect of accounting change	\$ 0.90	\$ 1.04	\$ 1.09
Cumulative effect of change in accounting for post retirement benefits	—	—	(0.21)
After cumulative effect of accounting change	\$ 0.90	\$ 1.04	\$ 0.88

The application of United States GAAP would have the following effects on the consolidated balance sheets as reported:

	As Reported	Increase (Decrease)	United States GAAP
December 31, 1996			
Current assets	\$1 475	\$ (16)	\$1 459
Property, plant and equipment, net	6 014	483	6 497
Deferred charges and other assets	280	(64)	216
Current liabilities	1 363	(7)	1 356
Long-term debt	1 350	(157)	1 193
Deferred income taxes	793	563	1 356
Contributed surplus	2 572	1 122	3 694
Retained earnings (deficit)	(88)	(1 118)	(1 206)
December 31, 1995			
Current assets	\$1 362	\$ (8)	\$1 354
Property, plant and equipment, net	4 829	285	5 114
Deferred charges and other assets	297	(80)	217
Current liabilities	1 108	(6)	1 102
Long-term debt	1 081	(152)	929
Deferred income taxes	621	339	960
Contributed surplus	2 572	1 122	3 694
Retained earnings (deficit)	(282)	(1 106)	(1 388)

Net Reserves of Crude Oil and Natural Gas Before Royalties

Proved reserves of crude oil and liquids increased by 29 million barrels in 1996 to 452 million barrels. Major positive changes included the purchase of 68 million barrels and the addition of nine million barrels from discoveries, extensions, revisions and improved recovery. Purchases included 40 million barrels of reserves associated with the acquisition of Amerada Hess Canada Ltd., 14 million barrels for North Sea assets and 14 million barrels from several Western Canada transactions. Offsetting the positive changes were sales of 12 million barrels and production of 36 million barrels. Sales included 10 million barrels for the Golden Lake property.

Proved reserves of natural gas increased by 520 billion cubic feet to 2 585 billion cubic feet. Major positive changes included purchases of 592 billion cubic feet and the addition of 230 billion cubic feet from discoveries, extensions, revisions and improved recovery. Purchases included 504 billion cubic feet of reserves associated with the acquisition of Amerada Hess Canada Ltd. and 88 billion cubic feet from several Western Canada transactions. Offsetting these positive changes were sales of 42 billion cubic feet and production of 260 billion cubic feet.

Based on the reserve estimates of participants, 123 million barrels of proved plus probable reserves before royalties are attributed to Petro-Canada's 20 per cent interest in Hibernia. Reserves at Hibernia, Terra Nova and additional reserves at Veslefrikk and Njord in the North Sea will be booked when appropriate during the development and production phases of these projects. A two million barrel writedown of Algerian reserves was taken in 1996.

	Crude Oil and Field Natural Gas Liquids (millions of barrels)				Natural Gas (billions of cubic feet)
	Conventional Western Provinces	Conventional International ^{4,5}	Synthetic Crude Oil ¹	Total	
Net Proved Developed and Undeveloped Reserves Before Royalties ^{2,3}					
Beginning of year 1994	186	—	203	389	2 313
Revisions of previous estimates	(15)	—	65	50	(3)
Sale of reserves in place	(17)	—	—	(17)	(208)
Purchase of reserves in place	10	—	—	10	20
Discoveries, extensions and improved recovery	5	—	—	5	136
Production	(18)	—	(8)	(26)	(197)
End of year 1994	151	—	260	411	2 061
Revisions of previous estimates	—	—	14	14	29
Sale of reserves in place	(1)	—	—	(1)	(10)
Purchase of reserves in place	4	—	—	4	30
Discoveries, extensions and improved recovery	9	15	—	24	154
Production	(20)	—	(9)	(29)	(199)
End of year 1995	143	15	265	423	2 065
Revisions of previous estimates	3	(2)	—	1	13
Sale of reserves in place	(12)	—	—	(12)	(42)
Purchase of reserves in place	54	14	—	68	592
Discoveries, extensions and improved recovery	8	—	—	8	217
Production	(23)	(4)	(9)	(36)	(260)
End of year 1996	173	23	256	452	2 585

¹ Reserves of synthetic crude oil are based on a gross production rate at Syncrude of approximately 200 000 barrels per day to the year 2025.

² Net proved developed and undeveloped reserves before royalties are Petro-Canada's working interest in reserves before the deduction of Crown or other royalties. Such royalties are subject to change by legislation or regulation and can also vary depending on production rates, selling prices and timing of initial production. No reserve quantities have been included to reflect royalty interests Petro-Canada has in various properties.

³ Proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those proved reserves that are expected to be recovered from existing wells or facilities. Proved undeveloped reserves are proved reserves which are not recoverable from existing wells or facilities, but which are expected to be recovered through additional development drilling or through the upgrading of existing or additional new facilities.

⁴ International reserves comprise 12 million barrels of oil in Algeria and 11 million barrels of oil in Norway.

⁵ After deduction of a 20 per cent royalty, Petro-Canada receives crude oil to recover costs incurred on behalf of Petro-Canada and SONATRACH, the Algerian state oil company. The remaining production is shared between Petro-Canada and SONATRACH, varying with the level of production. The total share accruing to Petro-Canada cannot exceed 49 per cent of the gross production volumes.

Petro-Canada
Supplemental Information

Oil and Gas Landholdings (Gross/Net) ¹

(millions of acres)

	Developed ²				Undeveloped ²				Total			
	1996		1995		1996		1995		1996		1995	
	Gross ¹	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Canada												
Mainland Canada	3.2	1.5	2.1	0.9	3.1	1.8	1.5	1.0	6.3	3.3	3.6	1.9
Oil Sands	-	-	0.1	-	0.7	0.2	0.7	0.2	0.7	0.2	0.8	0.2
East Coast Offshore ⁵	-	-	-	-	0.4	0.1	0.7	0.2	0.4	0.1	0.7	0.2
Other Frontier ³	-	-	-	-	7.2	6.1	7.2	6.1	7.2	6.1	7.2	6.1
International ¹	-	-	-	-	2.1	2.0	2.0	2.0	2.1	2.0	2.0	2.0
Petro-Canada Total	3.2	1.5	2.2	0.9	13.5	10.2	12.1	9.5	16.7	11.7	14.3	10.4

¹ Gross acres includes the interests of others, while net acres excludes the interests of others.

² Developed lands are areas capable of production. Undeveloped lands are areas with rights to explore.

³ Exploration is not currently permitted in the Eastern Arctic or off the west coast of Canada.

⁴ International landholdings are in Algeria and Norway.

⁵ East Coast Offshore landholdings do not include parcels acquired at Newfoundland September 30, 1996 land sale because licenses were not issued until January 9, 1997. These licenses cover acreage of 0.9 million gross acres, 0.2 million net to Petro-Canada.

Principal Reserve and Production Locations

Conventional Crude Oil

Fields	Proved Reserves Before Royalties at December 31, 1996 (millions of barrels)	Per Cent of Total Proved Reserves	Average 1996 Daily Production Before Royalties (thousands of barrels)	Per Cent of Total 1996 Oil Production
Valhalla, Alberta	28.3	22	11.2	23
Pembina, Alberta	20.6	16	2.8	6
Ferrier, Alberta	19.0	14	2.1	4
Bellshill Lake, Alberta	8.2	6	5.8	12
Boundary Lake, British Columbia	7.4	6	1.8	4
Willesden Green, Alberta	5.5	4	0.9	2
Sturgeon Lake, Alberta	5.3	4	2.3	5
Cactus Lake, Saskatchewan	4.3	3	1.4	3
Shekilie, Alberta	4.0	3	0.9	2
Wapiti, Alberta	2.9	2	1.1	2
Other	25.8	20	18.1	37
Total	131.3	100	48.4	100

The reserves and production data in these tables do not include natural gas liquids.



Natural Gas

Fields	Proved Reserves Before Royalties at December 31, 1996 (billions of cubic feet)	Per Cent of Total Proved Reserves	Average 1996 Daily Production Before Royalties (millions of cubic feet)	Per Cent of Total 1996 Gas Production
Hanlan, Alberta	315	12	77	11
Jedney, Beg and Bubbles, British Columbia	242	9	29	4
Ricinus/Bearberry, Alberta	218	8	91	13
Wildcat Hills, Alberta	216	8	38	5
Fort St. John, British Columbia	164	6	39	5
Gilby, Alberta	126	5	45	6
Brazeau, Alberta	108	4	29	4
Medicine Hat, Alberta	106	4	28	4
Laprise, British Columbia	97	4	29	4
Yoyo, British Columbia	93	4	39	6
Other	900	36	268	38
Total	2 585	100	712	100

The reserves and production data in these tables do not include natural gas liquids.

Refining by Locations

Petro-Canada owns and operates three refineries, in Edmonton, Montreal and Oakville, Ontario. The refineries produce a full slate of refined petroleum products, including gasolines, diesel fuels, heating oils, aviation fuels, asphalts and petrochemical feedstocks. Refining units at Port Moody, British Columbia, and crude oil and fuel processing units at Mississauga, Ontario, were permanently shut down in 1993, reducing total capacity by 12 500 cubic metres per day.

The Company also owns and operates a lubricants plant in Mississauga, Ontario, which produces base oils, motor oils and specialty lubricants and greases, using feedstock from the Oakville and Montreal refineries.

<i>(thousands of cubic metres)</i>	1996	Average Volumes of Crude Oil Processed per Calendar Day¹	1995	1994	1993	Daily Rated Capacity as at December 31,² 1996
Edmonton, Alberta	18.5		17.5	17.3	15.5	18.4
Montreal, Quebec	13.9		13.0	12.2	11.2	14.2
Oakville, Ontario	12.6		11.5	12.6	13.4	12.8
Port Moody, British Columbia	—		—	—	1.3	—
Total	45.0		42.0	42.1	41.4	45.4

¹ For refineries which closed part way through the year, average daily volumes are calculated as if the refinery had operated all year.

² Daily rated capacity is based on calendar days and definite specifications as to types of crude oil, the products to be obtained and the refinery process required. Variations in these factors may result in actual capacity being higher or lower than rated capacities.

Generally Accepted Accounting Principles in the United States

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, which differ in some respects from those applicable in the United States. The significant differences in accounting principles as they pertain to the accompanying consolidated financial statements are described in Note 24 to the Consolidated Financial Statements.

A Statistical Supplement to this annual report, which is available on request (see inside back cover), also includes disclosures in accordance with the United States Financial Accounting Standards Board Statement No. 69 ("Disclosures About Oil and Gas Producing Activities").

Petro-Canada
Five Year Financial and Operating Summary ¹
(stated in millions of dollars, unless otherwise indicated)

	1996	1995	1994	1993	1992
Consolidated					
Revenue	\$5 607	\$4 820	\$4 758	\$4 629	\$4 747
Expenses	5 111	4 450	4 322	4 295	4 573
Unusual items	—	—	51	—	(121)
Provision for income taxes	249	174	225	174	48
Net earnings	\$ 247	\$ 196	\$ 262	\$ 160	\$ 5
Cash flow	863	705	701	631	516
Total assets	7 769	6 488	6 076	5 696	5 514
Average capital employed	6 071	5 116	4 760	4 497	4 793
Operating return on capital employed <i>(in 1995 before organizational restructuring charge) (per cent)</i>	5.1	5.7	5.8	4.8	3.1
Return on capital employed <i>(per cent)</i>	5.1	4.9	6.7	4.8	1.5
Cash flow return on capital employed <i>(per cent)</i>	15.3	14.8	15.9	15.3	12.2
Debt	1 709	1 381	1 259	1 205	1 108
Debt to debt plus equity <i>(per cent)</i>	31.6	30.9	29.9	30.7	29.9
Debt to cash flow <i>(times)</i>	2.0	2.0	1.8	1.9	2.1
Expenditures on property, plant and equipment and exploration	959	853	702	609	457
Employees <i>(number at year end)</i>					
Petro-Canada	4 664	4 567	4 871	5 029	5 329
Subsidiaries	1 015	1 079	1 338	2 290	2 931
Total	5 679	5 646	6 209	7 319	8 260

Shareholders' Data

Weighted average number of common and variable voting shares outstanding <i>(millions)</i>	262.3	246.7	246.7	246.5	217.1
Shares outstanding at year end <i>(millions)</i>	270.7	246.7	246.7	246.5	246.5
Publicly held shares at year end <i>(millions)</i>	221.3	197.3	73.4	73.3	73.2
Share prices <i>(dollars)</i> ²					
— at year end	19.35	15%	11%	12	8%
— range during the year	15.63-20.60	10%-15%	10%-14%	7½-14	7½-10%
Shares traded <i>(millions)</i> ³	112.7	65.4	45.6	83.7	27.0
Book value per share <i>(dollars)</i>	13.64	12.53	11.94	11.04	10.52

Upstream Sector

Earnings from operations	\$ 192	\$ 153	\$ 153	\$ 114	\$ 119
Gains on asset sales	4	6	19	1	24
Unusual item	—	—	21	—	—
Net earnings	\$ 196	\$ 159	\$ 193	\$ 115	\$ 143
Cash flow	655	477	448	376	391
Expenditures on property, plant and equipment and exploration					
Exploration and development	\$ 380	\$ 240	\$ 209	\$ 183	\$ 106
Hibernia development	142	239	234	165	93
Other	127	108	84	66	146
	\$ 649	\$ 587	\$ 527	\$ 414	\$ 345

Petro-Canada
Five Year Financial and Operating Summary ¹
(stated in millions of dollars, unless otherwise indicated)

	1996	1995	1994	1993	1992
Upstream Sector <i>(continued)</i>					
Daily Production <i>(net, before royalties)</i>					
Crude oil and field liquids <i>(thousands of barrels)</i>	97.3	79.4	73.3	79.8	79.8
Natural gas <i>(excluding injectants, millions of cubic feet)</i>	712	546	540	562	507
Ethane and natural gas liquids production from straddle plants <i>(thousands of barrels)</i>	34.9	37.5	36.8	40.8	36.4
Average sales prices					
Crude oil and field liquids <i>(dollars per barrel)</i>	27.20	21.69	19.60	18.83	19.65
Natural gas <i>(dollars per thousand cubic feet)⁴</i>	1.61	1.32	1.92	1.74	1.42
Proved Reserves <i>(net, before royalties)</i>					
Crude oil and field liquids <i>(millions of barrels)</i>	452	423	411	389	417
Natural gas <i>(trillions of cubic feet)</i>	2.6	2.1	2.1	2.3	2.4
Oil and Gas Landholdings <i>(gross/net) (millions of acres)</i>	16.7/11.7	14.3/10.4	18.4/14.5	20.3/15.3	29.1/17.8
Wells Drilled <i>(gross/net)</i>					
Oil	118/82	112/69	129/90	165/100	49/25
Natural gas	141/73	161/98	160/89	196/87	41/6
Oil sands	—	—	—	2/1	—
Dry	39/17	29/13	34/14	24/10	15/4
Total	298/172	302/180	323/193	387/198	105/35
Propane					
Propane sales <i>(millions of litres)</i>	1 180	1 126	1 148	1 213	1 215
Downstream Sector					
Earnings from operations	\$ 130	\$ 160	\$ 136	\$ 112	\$ 27
(Losses) gains on asset sales	(3)	1	2	2	1
Net earnings	\$ 127	\$ 161	\$ 138	\$ 114	\$ 28
Cash flow	243	305	295	291	201
Expenditures on property, plant and equipment	282	254	169	190	110
Petroleum product sales <i>(thousands of cubic metres per day)</i>	43.7	41.6	41.5	41.3	43.0
Retail outlets at year end	1 765	1 871	2 029	2 220	2 630
Refinery crude capacity at year end <i>(thousands of cubic metres per day)</i>	45.4	45.4	45.1	45.1	57.6
Average refinery utilization <i>(per cent)⁵</i>	99	93	93	79	72

¹ Certain reclassifications have been made to the figures previously reported to reflect subsequent changes in reporting presentation.

² Share prices are for trading on The Toronto Stock Exchange.

³ Total shares traded on the Toronto, Montreal, New York, Vancouver and Alberta stock exchanges.

⁴ Average gas price is before deduction of British Columbia gathering and processing charges.

⁵ Average refinery utilization takes into account, where applicable, changes in refinery crude capacity that occurred during the year.

Petro-Canada
Quarterly Financial and Stock Trading Information
(unaudited, stated in millions of dollars unless otherwise indicated)

	1996				1995			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue								
Operating	\$1 267	\$1 284	\$1 334	\$1 629	\$1 150	\$1 177	\$1 181	\$1 231
Investment and other income	13	36	10	34	19	21	14	27
	1 280	1 320	1 344	1 663	1 169	1 198	1 195	1 258
Expenses								
Crude oil and product purchases	671	679	747	891	586	615	574	630
Producing, refining and marketing	296	315	321	325	305	295	290	308
General and administrative	50	46	43	48	137	54	53	64
Exploration	14	14	12	20	13	7	8	15
Depreciation, depletion and amortization	87	113	118	122	85	85	83	85
Taxes other than income taxes	19	18	18	15	19	17	16	16
Interest on long-term debt	21	21	27	32	21	20	20	20
Other interest	–	6	1	1	1	1	1	6
	1 158	1 212	1 287	1 454	1 167	1 094	1 045	1 144
Earnings Before Income Taxes	122	108	57	209	2	104	150	114
Provision for Income Taxes	52	56	33	108	10	44	71	49
Net Earnings (Loss)	\$ 70	\$ 52	\$ 24	\$ 101	\$ (8)	\$ 60	\$ 79	\$ 65
Cash Flow	\$ 207	\$ 204	\$ 182	\$ 270	\$ 130	\$ 178	\$ 210	\$ 187
Segmented Earnings								
Earnings from operations								
Upstream	\$ 52	\$ 24	\$ 22	\$ 94	\$ 40	\$ 37	\$ 35	\$ 41
Downstream	38	39	23	30	22	35	62	41
Shared Services	(20)	(16)	(19)	(20)	(20)	(16)	(17)	(19)
Organizational Restructuring	–	–	–	–	(52)	–	–	–
	70	47	26	104	(10)	56	80	63
Gains (losses) on asset sales	–	5	(2)	(3)	2	4	(1)	2
Net earnings (loss)	\$ 70	\$ 52	\$ 24	\$ 101	\$ (8)	\$ 60	\$ 79	\$ 65
Share Information <i>(dollars per common share)</i>								
Net earnings (loss)	0.28	0.20	0.08	0.38	(0.03)	0.24	0.32	0.26
Cash flow	0.84	0.78	0.67	1.00	0.53	0.72	0.85	0.76
Dividends paid	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Share price ¹								
– High	17%	18.40	18.70	20.60	12%	13%	15	15%
– Low	15%	16.65	16.85	16.90	10%	11%	12%	13%
– Close (end of period)	16%	16.95	17.40	19.35	12	13	14%	15%
Shares traded <i>(millions)</i> ²	18.4	24.0	22.4	47.9	7.6	16.0	23.1	18.7
Instalment receipts ¹								
– High	9%	10.15	13.30	16.30			7%	7%
– Low	7%	8.45	8.50	12.60			6%	5%
– Close (end of period)	8%	8.70	13.15	15.05			6%	7%
Receipts traded <i>(millions)</i> ²	57.3	42.9	29.4	42.5			57.9	56.9

¹ Share and receipt prices are for trading on The Toronto Stock Exchange.

² Total traded on the Toronto, Montreal, New York, Vancouver and Alberta stock exchanges.

Information for Shareholders and Investors

Petro-Canada's Outstanding Shares

At December 31, 1996, Petro-Canada's public float was 221.3 million common and variable voting shares, represented by 123.9 million instalment receipts and 97.4 million shares. In September 1995, the Government of Canada sold 123.9 million common shares on an instalment basis, for a total of \$14.625 each. A final instalment of \$4.25 is payable on or before March 24, 1997. A receipt holder receives full dividends and voting rights while paying for the shares over a period of time.

Transfer Agent and Registrar

In Canada, Petro-Canada's transfer agent and registrar is The R-M Trust Company. Share certificates may be transferred at R-M Trust's corporate offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver. Questions relating to share certificates, dividends and estate settlements should be directed to R-M Trust's corporate offices in Calgary: The R-M Trust Company
600 The Dome Tower
333 - 7th Avenue S.W.
Calgary, Alberta, Canada T2P 2Z1
Telephone toll free: (800) 387-0825
Email: enquiries@rmtrust.ca
Website at <http://www.rmtrust.ca>

In the United States, Petro-Canada's transfer agent and registrar is the ChaseMellon Company, L.L.C., which can be contacted at:
ChaseMellon Shareholder Services, L.L.C.
85 Challenger Road
Overpeck Center
Ridgefield Park, NJ 07660
Telephone toll free: (800) 387-0825

Annual Meeting

The annual meeting of shareholders will be held at 11:00 a.m. local time on Tuesday, April 29, 1997 at:
Crystal Ballroom, Palliser Hotel
133 - 9th Avenue S.W.
Calgary, Alberta

Stock Exchange Listings and Symbols

Toronto, Montreal, New York,
Vancouver, Alberta and Winnipeg
Canadian exchanges: PCA
New York: PCZ

Dividends

Petro-Canada's Board of Directors has adopted a policy of paying quarterly dividends of \$0.05 (\$0.20 per annum) per common share. The Board reviews the dividend policy in light of the Company's financial position, its financing requirements for growth and other factors.

Dividends are normally paid on or about the first working day of the months of January, April, July and October. The record dates are normally set approximately four weeks ahead of the dividend payment date. Dividends can be deposited directly to shareholders' bank accounts. If this service is desired, please contact the transfer agent and registrar.

Investor Relations and Shareholder Communications

Petro-Canada's Investor Relations staff may be contacted by writing to or calling:
Petro-Canada Investor Relations
P.O. Box 2844
Calgary, Alberta, Canada T2P 3E3
Telephone: (403) 296-4040
Fax: (403) 296-3061
Email: investor@petro-canada.ca
Visit our website at
<http://www.petro-canada.ca>

Information for Investors Outside of Canada

Dividends and interest payments made to residents in countries with which Canada has a bilateral tax treaty are subject to Canadian non-resident withholding tax of 15 per cent. The majority of countries are in this category. For U.S. residents, these rates were reduced in 1996 to 10 per cent on dividends and six per cent on interest. There is no Canadian tax on gains from the sale of shares or debt instruments owned by non-residents not carrying on business in Canada. Estate taxes or succession duties are not levied by any level of government in Canada. (This summary is not intended as tax advice; shareholders may wish to consult a tax advisor with respect to particular circumstances).

Duplicate Reports

While we try to avoid duplicate mailings of annual reports and other shareholder materials, shareholders with more than one unregistered account may receive duplicates. Registered shareholders with more than one account may contact the transfer agent and registrar to eliminate duplicate mailings.

Board of Directors and Senior Officers

Norm McIntyre
Wesley Twiss
Jim Pantelidis
Jim Stanford



Board of Directors

Thomas E. Kierans
Chairman of the Board
Petro-Canada
President and
Chief Executive Officer
C.D. Howe Institute
Toronto, Ontario

James M. Stanford
President and
Chief Executive Officer
Petro-Canada
Calgary, Alberta

Angus A. Bruneau, O.C., Ph.D., P.Eng.¹
Chairman
Fortis Inc.
St. John's, Newfoundland

Gail Cook-Bennett¹
Vice Chair
Bennecon Ltd.
Etobicoke, Ontario

John F. Cordeau¹
Partner
Bennett Jones Verchere
Barristers and Solicitors
Calgary, Alberta

Purdy Crawford
Chairman
Imasco Limited
Toronto, Ontario

Claude Fontaine, Q.C.¹
Senior Partner
Ogilvy Renault
Barristers and Solicitors
Verdun, Quebec

Brian F. MacNeill, F.C.A.
President and
Chief Executive Officer
IPL Energy Inc.
Calgary, Alberta

Gerald J. Maier, P.Eng., F.C.A.E.
Chairman
TransCanada PipeLines Limited
Calgary, Alberta

Guyllaine Saucier, C.M., F.C.A.¹
Chairman, Board of Directors
Canadian Broadcasting
Corporation
Montreal, Quebec

William W. Siebens
President and
Chief Executive Officer
Candor Investments Ltd.
Calgary, Alberta

¹ Audit Committee member

Senior Officers

Thomas E. Kierans
Chairman of the Board

James M. Stanford
President and
Chief Executive Officer

Norman F. McIntyre
Executive Vice-President

James Pantelidis
Executive Vice-President

Wesley R. Twiss
Executive Vice-President

Conversion Factors

To conform with common usage, imperial units of measurement are used in this report to describe exploration and production, while metric units are used for refining and marketing. Dollars are Canadian unless otherwise stated.

1 cubic metre (liquids)	= 6.29 barrels
1 cubic metre (natural gas)	= 35.31 cubic feet
1 litre	= 0.22 imperial gallon
1 hectare	= 2.47 acres

Additional Publications

The following publications are available on request from Investor Relations or Communication Services:

- Management's Discussion and Analysis of financial condition and results of operations, filed with Canadian securities regulators
- Statistical Supplement to the Annual Report, containing nine-year financial information and more detailed operating data
- Annual Information Form, filed with Canadian securities regulators
- Form 40-F, filed with the U.S. Securities and Exchange Commission
- Interim Reports, which are published about five weeks after the end of the first, second and third quarters
- Petro-Canada's Code of Business Conduct

Petro-Canada

P.O. Box 2844
Calgary, Alberta
Canada T2P 3E3
Telephone (403) 296-8000
Fax (403) 296-3030
Email: investor@petro-canada.ca
Visit our website at:
<http://www.petro-canada.ca>

Investor and Analyst Enquiries

Investor Relations (403) 296-4040

Media Enquiries

Communication Services
(403) 296-8586

Publié également en français

Glossary of Financial Terms and Ratios

Terms

BARREL OF OIL EQUIVALENT: Natural gas production (excluding injectants) is converted using 10 000 cubic feet of gas for one barrel of oil.

CAPITAL EMPLOYED: Total assets excluding the translation adjustment on long-term debt, less current liabilities, excluding current portion of long-term debt and notes payable – Hibernia.

CASH FLOW: Cash flow from operations before changes in non-cash working capital items.

DEBT: Notes payable – Hibernia and long-term debt including current portion.

EARNINGS FROM OPERATIONS: Earnings before gains (losses) on asset sales and unusual items, net of income taxes.

OPERATING EXPENSES: Producing, refining and marketing expenses.

OVERHEAD EXPENSES: General and administrative expenses.

Ratios

CASH FLOW RETURN ON CAPITAL EMPLOYED: Cash flow plus after-tax interest expense divided by average capital employed. Measures cash flow generated relative to the asset base.

CURRENT RATIO: Current assets divided by current liabilities. Reflects the Company's short-term liquidity and its ability to pay short-term trade debts.

DEBT TO CASH FLOW: Debt divided by cash flow. Indicates the Company's ability to discharge its outstanding debt.

DEBT TO DEBT PLUS EQUITY:

Debt divided by debt plus equity. Indicates the relative amount of debt in the Company's capital structure. Measures financial strength.

OPERATING RETURN ON CAPITAL EMPLOYED: Earnings from operations plus after-tax interest expense divided by average capital employed. Measures operating earnings relative to the asset base.

RETURN ON CAPITAL EMPLOYED: Net earnings plus after-tax interest expense divided by average capital employed. Measures net earnings relative to the asset base.

Designed and Produced by Parallel Strategies Inc.
Photography: Ric Kokotovich, Joëlle Opelik, Peter Christopher, Marc Pike
Executive Photography: Kate Kunz
Printing: H. MacDonald Printing



Text portion of annual report was printed on paper containing at least 50 per cent waste fibre, including a minimum of 20 per cent post-consumer waste. Inks are based on linseed oil and contain no heavy metals. The printing process was alcohol-free. Volatile organic compounds associated with printing were reduced by 50 to 75 per cent from the levels which would have been produced using traditional inks and processes.

